S. HRG. 100–799 PT. 1

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT AND CERTAIN INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1989

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

SECOND SESSION

ON

H.R. 4800

AN ACT MAKING APPROPRIATIONS FOR THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT AND FOR SUNDRY INDEPENDENT AGENCIES, BOARDS, COMMISSIONS, CORPORATIONS, AND OFFICES FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1989, AND FOR OTHER PURPOSES

PART 1 (Pages 1–535)

AMERICAN BATTLE MONUMENTS COMMISSION
ARMY CEMETERIAL EXPENSES
CONSUMER INFORMATION CENTER
CONSUMER PRODUCT SAFETY COMMISSION
FEDERAL HOME LOAN BANK BOARD
NATIONAL CREDIT UNION ADMINISTRATION
NATIONAL INSTITUTE OF BUILDING SCIENCES
NATIONAL SCIENCE FOUNDATION
NEIGHBORHOOD REINVESTMENT CORPORATION
OFFICE OF CONSUMER AFFAIRS
OFFICE OF SCIENCE AND TECHNOLOGY POLICY
SELECTIVE SERVICE SYSTEM
VETERANS ADMINISTRATION

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DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT-INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1989

MONDAY, FEBRUARY 29, 1988

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The committee met at 10 a.m. in room SD–124, Dirksen Senate Office Building, Hon. William Proxmire (chairman) presiding.

Present: Senators Proxmire, Domenici, and Grassley.

AMERICAN BATTLE MONUMENTS COMMISSION

STATEMENT OF MAJ. GEN. A.J. ADAMS, SECRETARY, AMERICAN BATTLE MONUMENTS COMMISSION

ACCOMPANIED BY:

COL. FREDERICK C. BADGER, DIRECTOR OF ENGINEERING AND MAINTENANCE

COL. CLAYTON L. MORAN, DIRECTOR OF PERSONNEL AND ADMINISTRATION

COL. WILLIAM E. RYAN, JR., DIRECTOR OF OPERATIONS AND FINANCE

OPENING REMARKS

Senator PROXMIRE. The subcommittee will come to order.

Our first witness is Major General Adams, Secretary of the American Battle Monuments Commission, who is accompanied by Colonel Badger, Colonel Moran, and Colonel Ryan.

The American Battle Monuments Commission is requesting an appropriation of $15,085,000 in fiscal year 1989, a 21.5-percent increase over current year estimates of $12,408,000.

A large portion of the increase is due to requests for $829,000 in reserve accounts to offset anticipated currency exchange losses and $500,000 for Korean War Veterans Memorial design, site preparation, and administrative costs.

PREPARED STATEMENT

Before we proceed, General, we have received a prepared statement from Senator D'Amato who requested that it be entered into the hearing record. Without objection, the statement will appear at this point in the hearing.

[The statement follows:]

PREPARED STATEMENT OF SENATOR ALFONSE D'AMATO

Mr. Chairman, I am pleased to join my colleagues on this subcommittee today to review testimony on the FY89 budget request for the American Battle Monuments Commission, the U.S. Army's Cemeterial Expenses, the Selective Service System, and the National Credit Union Administration.

AMERICAN BATTLE MONUMENTS COMMISSION

I welcome to the subcommittee Major General A. J. Adams, USA, Secretary of the American Battle Monuments Commission. This Commission plays a vital role in helping us to recognize and remember the men and women who have so valiantly defended this country.

The Commission is specifically responsible for designing, constructing, and maintaining our federal military cemeteries and memorials, both at home in America, and abroad where battles were fought. Additionally, the Commission provides assistance to friends and relatives of the American war dead interred in or commemorated at its facilities. At present, the Commission is preparing to erect a memorial here in Washington to honor those who served in the Korean war.

We in Congress are well aware of the need to maintain our national memorials and cemeteries. Last July, we passed a supplemental appropriations bill which included funds to ensure the Commission's financial stability—a move that was needed due to recent fluctuations in the value of the dollar.

The Commission's budget request for fiscal year 1989 is $15,085,000, an increase of approximately $2.5 million over its fiscal year 1988 request. I look forward to hearing Major General Adams' testimony this morning regarding the needs and goals of the Commission in the upcoming year.

ARMY CEMETERIAL EXPENSES

I also look forward to hearing the testimony of John Doyle on the costs of operating Arlington National Cemetery and the Soldiers' and Airmen's Home National Cemeteries. The Army's fiscal year 1989 request for cemeterial expenses is $13,195,000. Not only do our distinguished servicemen deserve a special place for honorable burial, but living Americans should have a place to pay proper homage to these defenders of American freedom.

SELECTIVE SERVICE SYSTEM

I also welcome Samuel K. Lessey, Jr., Director of the Selective Service System. I want to commend Mr. Lesseyfor the fine job his agency has been doing. The fact that 98.4% of those required to register have done so speaks highly of the efforts of the Selective Service System. With over two million males reaching the age of eighteen every year, I am impressed by your agency's ability to inform these young men of their legal obligations.

One of our nation's most important deterrents to aggression is the ability to mobilize forces quickly. I hope the Selective Service System will continue its fine work to keep this readiness at a high level.

NATIONAL CREDIT UNION ADMINISTRATION

The National Credit Union Administration has been a successful program since its inception in 1934. As you know, federal credit unions are privately owned organizations created to provide a source of credit to their members. The benefits reaped from the credit unions are immeasurable.

The administration is involved in a variety of activities including the chartering of new federal credit unions; supervising existing credit unions; engaging in periodic examinations of their financial and operating conditions; and providing administrative services. Its most important function is to provide liquidity assistance to its members and to insure depositor's accounts.

I look forward to the testimony of our distinguished witnesses this morning and hope that they will provide some guidance as to the direction that these agencies intend to follow in the coming year.

Thank you, Mr. Chairman.

Senator Proxmire. General Adams, I have had an opportunity to read your testimony, so you can summarize at this point if you wish, with the understanding that your complete statement will be put in the record in full.

General Adams. Thank you, sir.

SUMMARY OF STATEMENT

Mr. Chairman, thank you for the opportunity to be here. As you mentioned, you have copies of our prepared statement and it will appear verbatim in the record. I will summarize its contents.

CURRENCY EXCHANGE LOSSES

The falling dollar continues to be a problem. Actual currency exchange losses during the first quarter of this year were $283,000. At this rate, the losses for this year will exceed $1,100,000. A loss of similar magnitude is anticipated during the budget year.

Thanks to your efforts, a fund was established in the fiscal year 1987 supplemental appropriations to offset currency exchange losses. A total of $1,350,000 remains available of that fund and should be adequate for the losses this year, but not for the budget year.

BUDGET REQUEST

The Commission's fiscal year 1989 appropriation request is $15,085,000, $2,677,000 more than fiscal year 1988. The request contains $13,756,000 for salaries and expenses; $829,000 in no-year funds to offset some of the anticipated currency exchange losses; and $500,000 for design, site preparation, and administration costs associated therewith for a Korean War Veterans Memorial.

KOREAN WAR VETERANS MEMORIAL

As mentioned during last year's hearing, Public Law 99–572 authorizes the Commission to erect a Korean War Veterans Memorial in the Washington, DC, area, utilizing funds obtained primarily through private contributions.

For this $6 million project, an appropriation of $500,000 for design, site preparation, and administrative costs associated thereto and $500,000 for partial construction is authorized. To date, $2,170,000 has been received in private contributions. With the federal contribution, an additional $3 million in private contributions will be needed.

This concludes my summary. I will be glad to answer your questions.

[The statement follows:]

PREPARED STATEMENT OF MAJ. GEN. A.J. ADAMS

Mr. Chairman and members of the subcommittee, I wish to thank you for the opportunity to testify today in support of the American Battle Monuments Commission's fiscal 1989 appropriation request.

As indicated during the hearing last year, the continually falling dollar overseas and inflation in the countries where our installations are located made it necessary for us to institute austere measures during fiscal 1987 to ensure that sufficient monies remained throughout the year to pay the permanent employees and minimum administrative overhead costs. Thanks to your efforts, funds were provided in the supplemental last July to defray currency exchange losses and the cost of living pay increases for our foreign national employees. In fact, $1,350,000 in no-year funds remain available to defray currency exchange losses in current and subsequent years.

During the first quarter of fiscal 1988, the Commission's actual currency exchange losses were $64,000 in October, $96,000 in November, and $123,000 in December, for a total of $283,000. Should similar losses occur in subsequent quarters, the Commission's total currency exchange losses for fiscal 1988 would be in the neighborhood of $1,132,000. The actual currency exchange losses were determined as follows:

Whenever expenditures were made during a month, the difference between the rate at the time the currency was purchased and the budgeted rate was recorded, together with the amount of the foreign currency expended and the amount of gain or loss in dollars. At the end of the month and quarter, the algebraic sum was determined.

When the fiscal 1989 budget request was prepared, it was anticipated that $1,084,000 would be needed to offset currency exchange losses during fiscal 1988, leaving $266,000 of the no-year funds appropriated for that purpose in fiscal 1987 remaining to offset currency exchange losses during fiscal 1989. On January 7, 1988, the fiscal 1989 budgeted rates were compared to the currency exchange rates at that time. It was determined that an additional $829,000 in no-year funds for a total of $1,095,000 would be needed to defray anticipated currency exchange losses during fiscal 1989. Subsequently, that additional sum was incorporated in the appropriation request by the Office of Management and Budget, with the proviso that it be utilized solely to defray currency exchange losses.

Fiscal 1988 is going to be an austere year for the Commission. The original $12,925,000 approved by the Office of Management and Budget for that year, which was rather austere in itself, has been reduced by deficit reduction measures to $12,408,000. Additionally, the Commission is being required to absorb an estimated $247,000 in cost-of-living pay raises for a net reduction of $764,000. As a consequence, the Commission during fiscal 1988 must defer part of its supply, spare parts, and equipment purchases, as well as a number of maintenance and repair projects. In other words, it will live off the shelf where it can and limit purchases and maintenance and repair projects to those of a more urgent nature.

As mentioned during last year's hearing, Public Law 99-572 authorizes this Commission to erect a Korean War Veterans Memorial in the Washington, DC, environ with funds obtained primarily through private contributions. For this $6 million project, the legislation authorizes an appropriation of $500,000 for design, site preparation, and associated administrative costs, and $500,000 for partial construction, for a total of $1 million. To date, $2,070,000 has been received in private contributions. Counting the federal contribution, an additional $3 million in private contributions will be needed.

The Commission's appropriation request for 1989 is $15,085,000, $2,677,000 more than fiscal 1988. The request contains $13,756,000 for salaries and expenses, $829,000 in no-year funds to offset anticipated currency exchange losses, and $500,000 for Korean War Veterans Memorial design, site preparation, and administrative costs associated thereto.

This concludes my prepared statement.

CURRENCY EXCHANGE LOSSES

Senator PROXMIRE. Thank you very much, sir.

General Adams, in your opening statement, you refer to the $1,350,000 of reserve that is currently available to defray currency exchange losses. You indicate that unanticipated growth in the currency exchange imbalance in fiscal year 1988 could draw down $1,132,000 of this reserve; and additionally, $829,000, for a total of $1,095,000, would be needed to get through fiscal year 1989.

Can you tell us what calculations went into that estimate? Or to put it in another way, what assumptions are you making about further exchange rate deterioration?

General ADAMS. Yes, sir; we have the figure here. Colonel Ryan will answer that.

Colonel RYAN. Yes, sir. For the 1989 budget, we assumed that the dollar exchange rates would be 6.01 French francs; 38.44 Belgian francs and Luxemburg francs; 1.99 Netherland gilders; Italian lira, 1,258; and the British pound, 0.624.

Senator PROXMIRE. Can you tell me just roughly, for each of those, how much of a change that anticipates?

Colonel RYAN. There is approximately a 10-percent difference, sir.

Senator PROXMIRE. You expect the dollar to decline another 10 percent in value; is that right?

Colonel RYAN. Yes, sir.

Senator PROXMIRE. What do you base that on?

Colonel RYAN. We base it on the fact that the dollar has gone down so far this year about 12 percent. It has been on a continual slide since that time, sir; it just has not stopped.

Senator PROXMIRE. Of course, some people argue that the dollar has gone too far down, or that we should do what we can to help it recover; and some people think we will do that.

CURRENCY EXCHANGE FLUCTUATION ACCOUNT

Let me ask this. Last year, General, you recommended that the Commission be authorized to establish its own foreign currency fluctuation account in the amount of $5 to $10 million. Do you continue to support that approach, and have you pursued it with the Office of Management and Budget?

General ADAMS. Yes, sir; we do. In order to get the $3 million from the OMB in the first place, we promised them, and we promised you, that the funds would only be used for exchange rate losses. We are keeping meticulous books on the gains and losses in these currencies.

Senator PROXMIRE. As you can imagine, we have such pressure now on voting down spending in all accounts that it would be very difficult, given fiscal year 1989 pressures, to provide an extra $5 million for a currency fluctuation account. Do you have any other suggestions as to how we might meet the currency exchange rate problem?

General ADAMS. A smaller amount, as you did before, $3 million. If, as you seem to believe, the dollar is going to level off, then we can budget on the assumption that it is going to level off, but I don't think that is an assumption we should make at this time.

CONTRIBUTIONS TO THE KOREAN WAR VETERANS MEMORIAL

Senator PROXMIRE. Of course, as you know, it is very hard to persuade Congress to move on that. I see that you have received $2,090,000 in private contributions for the Korean War Veterans Memorial in Washington, DC.

In your estimation, how long will it take to obtain the remaining $5 million you expect to raise from private contributions?

General ADAMS. It would be a pure guess, Mr. Chairman, but we hope to have it within the next 1 to 2 years.

Senator PROXMIRE. Have you had any more large contributions since last year's $1 million contribution from Hyundai Motors?

General ADAMS. We had a large contribution—relatively large—from the Veterans of Foreign Wars, the Disabled American Veterans, and the Paralyzed Veterans of America. We have not received any commercial or industrial donations of any size.

Senator PROXMIRE. Senator Stafford has written the committee urging us to appropriate the full $1 million authorized for the federal share of the Korean War Veterans Memorial costs. Do you believe that the entire $1 million is needed at this time?

General ADAMS. We need $500,000 at this time for design. Of course, it would be nice to have the $500,000 for construction, but we don't need it now.

CAPITAL IMPROVEMENTS—EUROPEAN OFFICE

Senator PROXMIRE. On page 7 of your budget justification, it indicates you are requesting $460,000 for European cemeteries and memorial capital improvements. Can you explain what kind of capital improvements are being planned?

General ADAMS. Colonel Badger will answer that question.

Colonel BADGER. Capital improvements for 1989 include such projects as replacing the burned-out service building at Normandy for $200,000. At Brittany, installing an automatic sprinkler system for $120,000. At Lorraine, installing storm windows on both sets of quarters for $10,000. At St. Mihiel, reconstructing the service area for $90,000. And at the Netherlands, installing rolling shutters on both sets of quarters for $20,000. Those are examples, sir.

GUADALCANAL MONUMENT

Senator PROXMIRE. In fiscal year 1987, you received $150,000 in no-year funds for the Guadalcanal Monument. Can you give me the status of that project?

General ADAMS. Yes, sir; Colonel Badger was just over there.

Colonel BADGER. Last month, sir, I returned from Guadalcanal, where we made a site survey and obtained an agreement with the government of the Solomon Islands for free use of the land in perpetuity where the memorial will be sited.

We are working with a private organization which will fund part of the construction. We will put up the federal monument and they will put up the surrounding wing walls; we hope to award a contract for the construction of the monument this year.

Senator PROXMIRE. Thank you, sir. We are delighted to have the distinguished Senator from New Mexico, Senator Domenici, who is an honored member of this subcommittee.

Go ahead, Senator.

Senator DOMENICI. I have no questions, Mr. Chairman.

Senator PROXMIRE. We have a number of questions for the record, General and gentlemen. We would appreciate it if you could answer those questions for the record. Thank you very much.

General ADAMS. Thank you, Mr. Chairman, it has been a pleasure working with you; we know this is your last session here for us. We wish you a very healthy and happy future.

Senator PROXMIRE. Thank you. I very much appreciate that. I feel in great shape for the shape I am in. [Laughter.]

SUBMITTED QUESTIONS

General, I have a number of other questions, including specific questions on the Aisne-Marne Cemetery, the Cambridge Cemetery, the St. Mihiel Cemetery, and the North African Cemetery. And I would ask you to answer those for the record.

[The questions and answers follow:]

QUESTIONS SUBMITTED BY SENATOR PROXMIRE

Question. As you indicate in your opening statement, you are requesting $500,000 for the design, site preparation and administrative costs associated with the Korean War Veterans Memorial. Why shouldn't we wait until you have the required private contributions in hand before we appropriate public funds?

Answer. Public Law 99-652 provides that the legislative authority shall expire at the end of the five year period beginning on the date of enactment of such authority (October 28, 1986), unless the Secretary of the Interior or the Administrator of General Services (as appropriate) has issued a construction permit for the commemorative work during that period. It provides further that a construction permit cannot be issued until the site and design have been approved by the Secretary or the Administrator, the National Capital Planning Commission and the Commission of Fine Arts. Obtaining a design acceptable to all these agencies and this Commission can be a long and drawn out process. The procedure cannot commence until design funds are made available. At the beginning of fiscal 1989, 2 years of the 5 year limiting period will already have elapsed. In order to ensure satisfying the 5 year limiting period for obtaining a construction permit, an approved design should be obtained as soon as possible. Further, an approved design can be used effectively to encourage donations. In this regard, a good number of contributors wish to know what the memorial will look like before making a donation.

CHANGES IN CEMETERY BUDGETS

Question. You requested $454,479 for the Aisne-Marne Cemetery in fiscal 1988 yet your final fiscal 1988 allocation for Aisne-Marne is only $413,076. In a budget of that size a $41,403 cut is quite noticeable. How were you able to make this reduction?

Answer. The reduction was made possible by deferring installation of a sprinkler system.

Question. You requested $316,541 for the Cambridge Cemetery in fiscal 1988 yet your final fiscal 1988 allocation for Cambridge is only $280,739. That is a reduction of $35,802. Where do you plan to make these cuts?

Answer. This reduction was made possible by deferring projects to rewire the assistant superintendent's quarters and replace the windows in the Visitors building.

Question. The St. Mihiel Cemetery shows a fiscal 1988 request for $392,555 but your final 1988 allocation is for $314,801. That's a reduction of $77,754! What will be cut from St. Mihiel's budget?

Answer. Projects to repair the road to the compost area and renovate the Service Area have been deferred.

Question. Last year you requested $264,824 for the North Africa Cemetery yet your final fiscal 1988 allocation for North Africa is $228,514. How will that $36,310 cut affect North Africa'a budget?

Answer. The dinar is one currency that has appreciated with respect to our budgeted rate. Hopefully the increased exchange rate will enable us to maintain the cemetery at the lower budget level.

UNGRADED POSITIONS

Question. In fiscal 1986, the average salary of ungraded positions was $11,991. This increased to $14,593 in fiscal 1987 and you anticipate a further increase to $18,163 in fiscal 1988. This year you are requesting an appropriation of $18,322 per ungraded position in fiscal 1989. That is an increase of only $159 per position between 1988 and 1989. Why are you projecting such a small increase between 1988 and 1989 given the substantial increases you've experienced in past years?

Answer. The estimate is a conservative one reflecting the Commission's hope that the dollar exchange rates finally will stabilize somewhere near the budgeted rates of 6.01 Franch francs, 38.44 Belgian and Luxembourg francs, 1.99 Netherlands guilders, 1258 Italian lire and 0.624 British pounds. At the moment, unfortunately, they generally are well below these levels.

VEHICLE REPLACEMENT

Question. You have requested $105,000 for vehicles and equipment for European Cemeteries and Memorials. How many vehicles are you planning to purchase to replace the ones you currently have on hand?

Answer. The European Office plans to purchase one sedan, one carryall truck and three ½ ton pickup trucks in fiscal 1989 at a cost of $71,708.

Question. Can you tell us the mileage and age of each vehicle you intend to replace?

Answer. The sedan is 6 years old and has over 60,000 miles on its odometer; the carryall truck is 7 years old and has over 70,000 miles on its odometer; and the 3 pickup trucks are 7 years old and have over 70,000 miles on their odomoters.

Question. Would you be able to accommodate a year's delay in the purchase of any of these vehicles?

Answer. No sir. By the time that the replacement vehicles arrive in 1990, these vehicles will be 8 or 9 years old and have 80 to 90 thousand miles on their odometers. The pickup trucks and the carryall truck already are uneconomically repairable.

BENEFITS FOR FORMER PERSONNEL

Question. Page 9 of your justification indicates that you are requesting $99,000 for Benefits for Former Personnel, object classification number 13. Last year we appropriated $129,000 for this account. It seems to me that an increase might be anticipated due to currency exchange rates. Why is there a $30,000 reduction?

Answer. Italian law requires that the employing organization pay 1 months salary in severance pay for each year of service with the organization when an individual leaves the company. It is anticipated that one less local national employee in Italy will retire in 1989 than in 1988.

TRANSPORTATION OF THINGS

Question. Your budget justification indicates an increase of 41 percent from fiscal 1988 to fiscal 1989 for the Transportation of Things. Why is such a large increase necessary?

Answer. The anticipated purchase of supplies, materials, equipment and spare parts in fiscal 1989 is larger. As a consequence, the transportation costs also will be larger. Additionally, the retirement of several older U.S. employees is anticipated in fiscal 1989. Some of the increase is earmarked for transporting the household goods of the retirees back to the U.S. and those of their replacements to their new stations.

QUESTIONS SUBMITTED BY SENATOR D'AMATO

KOREAN WAR VETERANS MEMORIAL

Question. I am pleased to learn that efforts are progressing toward construction of a Korean War Veterans Memorial in Washington, DC. How long do you expect it will take to raise the additional $3 million in private funds needed for construction of the memorial?

Answer. We hope that we will be able to raise the additional funds needed within the next 12 to 18 months.

Question. Could you outline the steps being taken to raise these private funds?

Answer. The Commission and the Advisory Board are both working closely with veterans organizations in an effort to raise a sizable portion of the funds needed through their membership. Additionally, we are seeking contribution from private industry.

Question. Is there a projected date for the completion of the memorial?

Answer. The completion date is dependent upon several intangibles such as when the approved design becomes available and when the construction funds become available. The Commission would like to complete the project in 1990, which is the 40th Anniversary of the commencement of that war.

DEFERRED PROJECTS

Question. You state that the Commission's budget for fiscal year 1988, which was reduced by deficit-reduction measures to $12,408,000, will require the deferment of a number of maintenance and repair projects. Have you prepared a list of those deferred projects, and could you provide a copy to the Subcommittee?

Answer. A listing of the projects deferred as a result of the fiscal 1988 budget reduction measures is as follows:

OBJECT CLASS 25

All	Minor projects	48,000
Somme Cemetery	Repair base of flagpole	8,000
Henri-Chapell Cemetery	Reset steps to burial area	25,000
Rhone Cemetery	Resurface parking area	15,000
Aisne-Marne Cemetery	Update site plan	8,000
Brittany Cemetery	Rewire chapel & pumping station	12,000
Cambridge Cemetery	Replace visitors bldg windows	9,000
Lorraine Cemetery	Replace quarters shutters	9,000
Netherlands Cemetery	Replace quarters windows	18,000
Lorraine Cemetery	Replace qtrs kitchen cabinets	13,000
Ardennes Cemetery	Renovate quarters bathrooms	11,000
Oise-Aisne Cemetery	Repair roof tiles service bldg	9,000
Epinal Cemetery	Rewire qtrs & visitors building	16,000
Cambridge Cemetery	Rewire Asst Supt's quarters	4,000
Oise-Aisne Cemetery	Restore river pumping station	5,000
St. Mihiel Cemetery	Rehab battle maps at Montsec	5,000
Suresnes Cemetery	Rewire chapel & memorial	9,000
Pershing Memorial	Repoint memorial	20,000
	Total O.C. 25	$244,000

OBJECT CLASS 32

All	Minor improvements	24,000
St. Mihiel Cemetery	Reconstruct service area	80,000
Somme Cemetery	Construct add storage Bellicourt	6,000
Netherlands Cemetery	Install rolling shutters	7,000
Brittany Cemetery	Replace quarters furnaces	6,000
St. Mihiel Cemetery	Resurface compost area road	23,000
	Total O.C. 32	$146,000

Question. How did you decide which projects would be deferred?

Answer. The projects planned for each fiscal year are placed on a list in their order of priority for accomplishment. When reductions in funding are made, or when funds become scarce for any reason, projects are deferred from the bottom of the list as dictated by the amount of the shortage of funds.

DEPARTMENT OF DEFENSE—CIVIL

DEPARTMENT OF THE ARMY

ARMY CEMETERIAL EXPENSES

STATEMENT OF JOHN S. DOYLE, JR., PRINCIPAL DEPUTY ASSISTANT SECRETARY OF THE ARMY (CIVIL WORKS)

ACCOMPANIED BY:

RAYMOND J. COSTANZO, SUPERINTENDENT, ARLINGTON NATIONAL CEMETERY

JULIUS SMITH, PROJECT ENGINEER, ARLINGTON NATIONAL CEMETERY

RORY SMITH, BUDGET OFFICER, ARLINGTON NATIONAL CEMETERY

BUDGET REQUEST

Senator PROXMIRE. We will now hear from John S. Doyle, Jr., Principal Deputy Assistant Secretary of the Army for Civil Works.

It is a pleasure to welcome you and your colleagues, Secretary Doyle.

The Department of the Army is requesting $13,195,000, an increase of 62 percent over your current estimate for cemeterial expenses.

Secretary Doyle, I have read your statement. You may go ahead and summarize it, with the understanding that the complete statement will be included in the record.

Secretary DOYLE. Thank you, Mr. Chairman and Senator Domenici. It is a pleasure to testify before your committee this year.

SUMMARY OF STATEMENT

I will summarize my opening statement and respectfully request that my full statement be included in the hearing record. With me today are Ray Costanzo, Superintendent, Julius Smith, Project Engineer, and Rory Smith, Budget Officer, all of Arlington National Cemetery.

As you mentioned, Mr. Chairman, we are requesting $13,195,000 for fiscal year 1989. The key item in this request is funding for the next increment of the Columbarium.

I would like to thank the subcommittee and its members for the assistance we received last year in resolving the funding problem relating to the construction contract for the visitors' center parking facility. We, in the Department of the Army, sincerely appreciate the help that we received from the subcommittee.

I will be happy to answer any questions you might have.

Senator PROXMIRE. Thank you, Secretary Doyle.

[The statement follows:]

PREPARED STATEMENT OF JOHN S. DOYLE, JR.

Mr. Chairman and members of the subcommittee, I appreciate the opportunity to appear before the subcommittee in support of the fiscal year 1989 appropriation request for Cemeterial Expenses, Department of the Army. With me today are Mr. Raymond J. Costanzo, Superintendent, Mr. Julius Smith, project engineer, and Mr. Rory Smith, Budget Officer, all of the Arlington National Cemetery. We are appearing on behalf of the Secretary of the Army, who is responsible for operating Arlington and Soldiers' and Airmen's Home National Cemeteries. The requested funds are to finance operations at both cemeteries.

VISITORS' CENTER

This subcommittee is aware of the funding problems encountered in awarding the construction contract for the Visitors' Center parking facility. The Department of the Army sincerely appreciates and is grateful for the assistance given by this subcommittee in helping to resolve the funding shortfall. I regret the delay in notifying this subcommittee of the funding problem and I can assure you that we have taken positive steps to prevent such a mistake on our part from occurring again.

The Assistant Secretary of the Army (Civil Works) established a task force to investigate the entire matter. This task force completed its investigation on November 20, 1987, and a copy of its findings was subsequently provided to this subcommittee.

The following actions have been taken or are underway to ensure that there will be no recurrence of this nature:

(*a*) A memorandum of understanding [MOU] is being completed between Arlington National Cemetery and the Corps of Engineers to cover all future construction projects at the cemetery. This MOU will establish procedures specifying the responsibilities of each office from the initiation of a project to its termination.

(*b*) The Corps of Engineers will extend the directive control system to cover cemetery projects. This system will provide an overview of scoping and budgeting activities without centralizing control of the construction process.

(*c*) The Military District of Washington Deputy Chief of Staff for Housing and Engineering will assist Arlington National Cemetery in reviewing cemetery construction projects with the Corps of Engineers. Arlington National Cemetery does not have a staff of professional engineers available to advise and assist the Superintendent in carrying out his technical review responsibilities relating to major construction projects.

(*d*) The Office of the Assistant Secretary of the Army (Civil Works) has increased its level of oversight with respect to contract related decisions and performance.

For fiscal year 1989, we are requesting $13,195,000.

The increase of $223,000 in operation and maintenance is primarily due to an estimated increase in the cost for the grounds maintenance contract, installation of valve boxes to increase lawn irrigation capabilities, contract custodial services for the new visitors' center, and replacement of cemetery maintenance equipment. The increase of $3,793,000 in construction is primarily due to planned construction of the next increment of the Columbarium. Funding increases have been kept to a minimum and will provide adequate maintenance standards expected at this national shrine. These funds will provide for the full employment of 139 work-years, a reduction of 2 work-years from the fiscal year 1988 request, maintenance of the buildings and grounds, and provide the necessary supplies and equipment.

In fiscal year 1987 there were 2,910 interments and 1,200 inurnments; 2,940 interments and 1,225 inurnments are estimated for fiscal year 1988; and 2,950 interments and 1,275 inurnments are estimated for fiscal year 1989.

CEREMONIES

Arlington National Cemetery is this Nation's principal shrine to the men and women who served in the Armed Forces. It is a visible reflection of America's appreciation for those who have made the ultimate sacrifice to maintain our freedom. In addition to the thousands of funerals held there each year—accompanied by military honors—hundreds of nonfuneral ceremonies are conducted to honor those whose remains are interred/inurned within the confines of this cemetery. Thousands of citizens, as well as American and foreign dignitaries, visit Arlington to participate in these solemn events. Of the approximately 1,900 ceremonies conducted annually, approximately 50 ceremonies involve visiting or participating high-level dignitaries such as the President of the United States, Congressmen, Senators, Cabinet officers, visiting foreign dignitaries to include heads of state, military and political leaders. During fiscal year 1987, Arlington National Cemetery played host to over 4 million visitors; it is second only to the Smithsonian Institution as the most visited site in the National Capital region.

COLUMBARIUM

In 1980, when the Columbarium was opened, we had estimated approximately 700 inurnments per year. Use of the Columbarium has been greater than expected; we are averaging approximately 1,200 inurnments per year. We feel that the increase in use of the Columbarium can be attributed to four factors. First, the availability of the Columbarium for all honorably discharged veterans, who would not otherwise be eligible for burial at Arlington National Cemetery, has been given wide national coverage in all the major veterans organizations' publications. Second, the age of World War II veterans is increasing and, therefore, interments are increasing. Third, cremation has become more accepted by the public. Finally, it is a matter of economics. It costs families far less to transport cremated remains from distant points to the Arlington National Cemetery. Recently a decision to give World War II merchant seamen veterans eligibility may impact on Columbarium usage. We anticipate filling the currently available niches by 1990. Therefore, to preclude interruption of inurnment because of time delays in design and construction, design funds were requested for fiscal year 1988 and funds for construction of the next increment are requested for fiscal year 1989.

Approval of our fiscal year 1989 request will permit us to continue the high standards of maintenance expected at these cemeteries. We want to thank the subcommittee for its support in the construction of the Visitors' Center. We look forward to your participation in the dedication of the Visitors' Center when it is completed this fall.

Mr. Chairman, this concludes my remarks.

INITIAL REQUEST FROM OMB

Senator PROXMIRE. Secretary Doyle, can you tell us how much you initially requested from the Office of Management and Budget?

Secretary DOYLE. Yes, sir; the original request was $14,067,000.

Senator PROXMIRE. What was the rationale behind the subsequent adjustments?

Secretary DOYLE. Ray, perhaps you can discuss the adjustments.

Mr. COSTANZO. Yes, sir. The reduction was $872,000, which included $287,000 in pay and benefits, $102,000 for design of roadwork, $109,000 for the replacement of equipment, $100,000 for an historical preservation study, $100,000 for the installation of a handicap lift at the amphitheater, $50,000 for repair of the boundary wall, $50,000 in headstone realignment, $45,000 from the electrical upgrade program, and $29,000 in tree replacements.

CONSTRUCTION PROGRAM

Senator PROXMIRE. Now, you are requesting an increase of $5,031,000, or 62 percent, in your fiscal year 1989 budget. That is an enormous percentage increase—62 percent. Now, that is principally due to the proposed construction of the next Columbarium increment, I understand.

Secretary DOYLE. Yes, sir.

Senator PROXMIRE. You plan to spend a total of $6,213,000 for construction projects next year, including that project. Could you break that budget down for us? Tell us how much you will spend on the Columbarium addition and how much you will devote to phase I of the electrical upgrade?

Mr. Costanzo. Yes, sir. The Columbarium is estimated to cost $5,764,000 and the phase I of the electrical upgrade is $449,000, for a total construction program of $6,213,000.

Senator Proxmire. So, the Columbarium increase accounts for more than the entire $5,031,000 increase; right?

Mr. Costanzo. Yes, sir.

Senator Proxmire. Tell us why an electrical upgrade is needed at this time and how much we will have to spend in future years to complete that upgrade?

Mr. Julius Smith. The electrical system is over 50 years old. It is constantly breaking down, causing electrical outages in the amphitheater, the warehouse facility, Arlington House, and the Superintendent's quarters.

In order to comply with EPA standards and provide improved service, we must remove nine PCB-contaminated transformers and install a new underground electrical system.

This project is scheduled to be done in two phases, one phase in fiscal year 1989 and a second phase in fiscal year 1990.

Senator Proxmire. Now, last year you estimated Columbarium design would cost $452,000. You ended up spending $413,000 on the design, which is good because you saved money. You spent less than you said you would.

Can you tell us, though, why the project cost 10 percent less than you initially estimated?

Mr. Julius Smith. We used the same architect who designed the initial project. Since the Columbarium project is more or less an addition of what we have there already, we were able to save money.

PARKING FACILITY

Senator Proxmire. Mr. Doyle, last year you told us you hoped the parking facility could be opened up in March 1988. Will you meet that target?

Secretary Doyle. No, sir; it currently looks like it will be October 1 of this year.

Senator Proxmire. Why so much slippage?

Mr. Julius Smith. One of the reasons for the slippage is that the contractor obtained a 60-day time extension due to bad weather. We had a significant increase of inclement weather, especially snow.

REVOLVING FUND

Senator Proxmire. Now, the House has suggested you could create a revolving fund to reimburse the parking facility contractor for parking fees. We have been told the administration will be proposing legislation to authorize such a fund. Can you tell us what progress you are making on implementing that concept?

Mr. Costanzo. We are now in the process of preparing the enabling legislation and we hope to have that into OMB for approval within the next 30 to 60 days.

Secretary DOYLE. That legislation will allow us to establish a revolving fund to collect parking fees and recycle those fees to pay for the operation and maintenance expenses associated with the facility.

Any excess fees collected beyond the amounts that we need for operation and maintenance expenditures would be returned to the general fund of the Treasury to defray the construction costs of the facility.

VEHICLES

Senator PROXMIRE. Now, on page 9 of your justification, you indicate that you intend to procure eight vehicles in fiscal year 1989. I understand that procurement will cost approximately $85,000; is that correct?

Mr. COSTANZO. That is correct, sir.

Senator PROXMIRE. According to your justification, these are relatively low-mileage vehicles—under 50,000 miles in some cases—that you are replacing because they are at least 6 years old.

This is a very tough budget year. Couldn't you make at least some of those vehicles last another year as an economy measure?

Mr. COSTANZO. Yes, sir; we could, if necessary, but it would force us to use substandard vehicles in our interment operations. New sedans are urgently needed because they are directly used in conjunction with escorting the funerals throughout the cemetery.

Senator PROXMIRE. 50,000 miles is not much.

Mr. COSTANZO. No, sir. Our vehicles normally don't accumulate high mileage because of the manner in which they are used, at very low speeds for very short trips. This lends to their more rapid deterioration and increased maintenance problems.

Senator PROXMIRE. Will you provide for the record a list of the vehicles being replaced—their age, their mileage, and their replacement costs?

Mr. COSTANZO. Yes, sir.

[The information follows:]

VEHICLE REPLACEMENT

Item description	Model year	Mileage	Cost
Sedan	1982	27,815	$9,900
Sedan	1982	36,412	9,900
Sedan	1982	30,516	9,900
Station wagon	1982	50,902	9,900
1/2-ton pickup	1977	44,966	8,500
Stake bed	1979	46,397	12,000
Stake bed	1979	48,739	12,000
Dump truck	1979	40,746	13,000
Total			85,100

Senator PROXMIRE. Thank you.

Senator Domenici?

Senator DOMENICI. I have no questions.

SUBMITTED QUESTIONS

Senator PROXMIRE. Gentlemen, thank you very much. I have some other questions for the record. I would appreciate it if you would respond to them.

Secretary DOYLE. We would be glad to, sir.

Before we leave, I would like to echo the comments of the preceding panel and thank you for the tremendous work and service that you have provided to the country and wish you fair winds and following seas, as our brothers and sisters in the Navy might say.

Senator PROXMIRE. Thank you. That is very gracious.

[The questions and answers follow:]

QUESTIONS SUBMITTED BY SENATOR PROXMIRE

Valve Boxes for Lawn Irrigation

Question: Mr. Doyle, you indicate in your prepared statement that you will be installing valve boxes to increase lawn irrigation capabilities. How much are you requesting for this installation and how would your operations be affected if we turned down your request?

Answer: $42,000 is being requested for this project. If this project were cancelled or deferred, approximately 100 acres would be deprived of adequate watering during the hot dry season (June, July and August). This would cause a serious loss of lawns, trees and shrubs.

Grounds Maintenance Contract

Question: As you indicated in your opening statement, you anticipate a substantial increase in your grounds maintenance contract. To be more precise, contract costs would jump from $884,000 in Fiscal Year 1988 to $1,000,000 in Fiscal Year 1989, an increase of 13 percent. Can you tell us why these costs are going up so sharply?

Answer: Fiscal Year 1989 will be the beginning of new 3-year contract. The increase is anticipated because additional grounds related to the new Visitors Center will be included in the area to be maintained and we are also requiring the contractor to reduce the size of the tractor-mounted mowers from 60 inch to 48 inch width mowers. The smaller width is required to reduce and eliminate damage being inflicted on headstones and monuments. This will result in an approximate 15 percent increase in the time required to adequately mow the cemetery lawns.

Maintenance of Walls, Fences and Gates

Question: Last year, in response to a question submitted for the hearing record, you indicated that you normally try to schedule repair of approximately 1,000 linear feet of stone wall each year. In fact you had to repair 1,600 linear feet in Fiscal Year 1987 because funds were not available for repair in Fiscal Year 1986. I note from your justifications that you plan to spend no funds on wall maintenance in Fiscal Years 1988 and 1989. Why is this activity receiving such a low priority?

Answer: Repair of the cemetery stone wall during Fiscal Years 1988 and 1989 were reluctantly deferred. During Fiscal Year 1988, the funding shortfall for the parking facility coupled with the 4.5 percent reduction in Fiscal Year 1988 funds mandated by the Fiscal Year 1988 Bipartisan Budget Agreement caused us to defer this project for that year. This project was again placed in the Fiscal Year 1989 program. The Fiscal Year 1989 program was subsequently reduced $872,000 by the Office of Management and Budget. This sizeable reduction forced us to again defer this project in favor of continuing our other mission essential projects such as interments and equipment replacements.

Donations

Question: Mr. Costanzo, last year in the course of our discussion of a donation program as a means of supplementing the cost of maintaining the cemetery, you indicated that you were considering the publication of a pamphlet that would tell people how they might make a donation if they so desired. Have you published such a pamphlet or do you have plans to do so?

Answer: We are now in the process of preparing a public press release announcing our plans to implement paid parking at the Visitors Center. We are anticipating a negative public reaction to this action. For that reason, we have deferred publishing a pamphlet asking for donations at this time. We will again consider publishing the pamphlet after the paid parking program has been implemented and the public reaction has subsided.

QUESTIONS SUBMITTED BY SENATOR D'AMATO

Question: In 1967, the Congress approved an "Arlington National Cemetery Master Plan" authorizing construction of 28 projects. To date, 25 of these projects have been funded or partially funded. Could you briefly describe the three projects that remain to be funded, and the Army's timetable for their completion?

Answer: The three remaining unfunded Master Plan projects are the Facilities Maintenance Shops, Land Development Project 90, and Replacement of the Custis Walk.

The Facilities Maintenance Shops will replace the existing warehouse buildings in the old service area that have deteriorated to a point where they are inadequate and almost unservicable. These buildings were constructed in the early 1930's and were designed to accommodate a small workforce and the maintenance equipment of that era. Equipment being used and serviced today is far more complex and sophisticated to that which was used in the 1930's and cannot be properly maintained under existing conditions. The new facility will be located in the newly developed burial area and unite the cemetery workforce that is presently split into two areas almost two miles apart. With the shift in burial activity into the newly developed areas there is an economic requirement to house cemetery operational equipment at the location of burial activity. This project is scheduled for completion in 1992.

Land Development Project 90 is the final thirty two acres of land in the cemetery for burial purposes. This development, providing twenty-one thousand gravesites, will include construction of new roads, paving, curbing, a new drainage system, installation of potable and non-potable water distribution system, fifteen hundred feet of ornamental boundary wall and wrought iron fencing, fine grading and topsoiling, establishment of turf, and landscaping. This project is scheduled for completion in 1994.

The Replacement Custis Walk Project will consist of removing two thousand feet of the existing deteriorating bluestone walk and retaining cheekwall constructed in the late 1870's, and constructing a new flagstone and new concrete retaining cheekwall that will be compatible with the new walkway system throughout the cemetery. The walkway is heavily used by visitors due to its location near the gravesites of President's Taft and Kennedy, Civil Rights Leader, Medgar Evers, and General of the Army, Omar Bradley. This project is scheduled for completion in 1991.

SELECTIVE SERVICE SYSTEM

STATEMENT OF SAMUEL KENRIC LESSEY, JR., DIRECTOR, SELECTIVE SERVICE SYSTEM

ACCOMPANIED BY G. HUNTINGTON BANISTER, CONTROLLER, SELECTIVE SERVICE SYSTEM

BUDGET REQUEST

Senator PROXMIRE. Our next witness will be Mr. Samuel Lessey, Director of the Selective Service System. Mr. Lessey was appointed in December.

Mr. Lessey, it is good to have you with us today.

You are requesting $26,113,000 in fiscal year 1989, a slight increase of 2.57 percent over your current budget.

Mr. Lessey, you may summarize your statement, if you wish, with the understanding that the complete statement will be printed in the record.

STATEMENT SUMMARIZED

Mr. LESSEY. Good morning, Mr. Chairman and Senator Domenici. I am delighted to be here this morning and very pleased to make my first appearance before this distinguished subcommittee.

My statement is short, so I was planning to proceed with it, if that is appropriate.

As I stated at my nomination hearing before the Senate Armed Services Committee, I am deeply committed to the vigorous and fair administration of the Military Selective Service Act in accord with applicable statutory and constitutional law. This fiscal year 1989 request of $26,113,000 and 277 FTE's will permit a level of operations commensurate with the current year's level.

Although we are and will be operating with fewer resources than in prior years, I am convinced that the agency can continue to perform its mission and provide, when required, the third tier of defense manpower necessary for our national defense.

Continued improvement in on-time registration is receiving my attention, without detracting, of course, from the fundamental planning and preparation for mobilization readiness, should it ever be necessary for the Congress to authorize and the President to direct resumption of inductions.

REGISTRATION OF HEALTH CARE PROFESSIONALS

Under the authority given the agency in Public Law 100–180, we now have a new and complex task. This law requires Selective Service to include a structure for registration and classification of persons qualified for practice or employment in a health care occupation essential to the maintenance of the Armed Forces.

This will require a different process than used to register all 18-year-old males. We have started to plan for development of the system in-house with existing resources. This initiative will be one of my highest priorities. It will not be a return to the old "doctor draft" of the period from 1950 to 1972. This will require a new program to identify doctors of many specialties, nurses, x ray technicians, lab technicians, as well as personnel from most other medical specialties.

There is no more important task than the proper and expert care of casualties. The Military Selective Service Act itself requires that adequate medical care be provided for all inductees.

FAVORABLE PROGRESS NOTED IN REGISTRATION

Returning to one of our major peacetime programs, registration continues to go well. We have almost 14 million names and addresses of young men on file, representing nearly 96 percent of those required to register. When expressed as those eligible for callup—ages 20 through 25—over 98 percent are registered.

One of our most difficult tasks, and a continuing one, is that of making each new age group of 18-year-olds aware of the requirement to register within 30 days of their 18th birthday. We have placed a high priority on improving our on-time registration rate.

MAIL-IN REGISTRATION

We have a direct mail effort underway whereby high school officials, on a pilot basis, will provide high school seniors and other high-school-aged men turning 18 with a registration reminder which includes a mail-in registration card. This mail-in form may be completed by the registrant, detached, and mailed to the Selective Service.

This mail-in registration will also be used in several other mailing programs, including our annual mailing to male high school seniors, using the Department of Defense recruiting list; a mailing to selected lists of driver's license holders turning 18; and, in certain areas with low registration rates, a mailing to selected households which have been identified as having a high probability of an 18-year-old man living at that address. This is in the form of a reminder postcard.

In the same vein, a new combination registration/acknowledgement postcard and change of address form for registrants has been introduced, and today it is being very well received. This innovation will enable us to be more efficient and, down the line, save the taxpayers some money.

The new postcard provides a more professional appearance, as compared with our previous acknowledgement letters. I have samples of some of these postcards here for the members of the subcommittee.

"INFORMATION FOR REGISTRANTS"

On another topic, I am aware of the subcommittee's interest in supplying information to registrants on how and where they would file for postponement or a change in classification, should inductions ever resume. As you know, the booklet called "Information for Registrants" is made available through the Consumer Information Center in Pueblo, Colo.

Since these booklets have been stocked there, 12,600 have been distributed. For fiscal year 1987 alone, 7,650 were requested and distributed.

As a further step in the information process, we are designing a new poster to place in all the nation's post offices which will publicize the availability of this pamphlet. We also continue to publicize its availability in each registrant's acknowledgement postcard.

REGISTRATION COMPLIANCE PROGRAM

We continue to improve our already successful Registration Compliance Program. Fourteen states now have Solomon-type laws requiring men ages 18 to 25 to be registered as a condition for receiving state educational aid. For example, this has proven to be particularly helpful in the state of Ohio where Selective Service is matching tapes with the state colleges and universities.

Three states now require registration as a condition for state employment. On the federal level, our efforts with the Department of Education have been productive. We match lists with those of men receiving Pell grants against our registration data base.

As of January 1988, over 55,000 registrations were directly attributed to this interagency effort.

We are negotiating with the U.S. Postal Service and with the Office of Personnel Management to obtain lists to help them verify compliance with the Thurmond amendment, which requires the registration of men ages 18 to 25 as a prerequisite for employment in the executive branch of our government. Our ongoing compliance program continues to be effective.

Since its inception in January 1983, through January 1988 over 2,800,000 registrations have been received or confirmed as a result of this program. Also, as a result of the McCollum amendment to the Immigration Reform Act requiring registration as a condition of amnesty, we have received over 50,000 new registrations.

ALTERNATIVE SERVICE PROGRAM

We are also taking a fresh look at all aspects of our Alternative Service Program in order to enhance mobilization readiness and provide for more effective and efficient administration of the Alternative Service Program, should it require activation.

In conclusion, the Selective Service System is in a good position to perform its mission, and can mobilize if called upon to do so by the Congress and the President. We still have some fine tuning to do to be prepared for the variety of scenarios which might require resumption of inductions; but, on the whole, I feel the agency is ready to respond.

I will be happy to answer any of your questions.

[The statement follows:]

Prepared Statement of Samuel Kenric Lessey, Jr.

(Note: Registration percentages given herein are subject to being updated on a daily basis, and those given in the final copy submitted to the committee may be more current than those reflected in this printed statement.)

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Under the authority given the agency in Public Law 100–180, we now have a new and complex task. This law requires of Selective Service to include "a structure for registration and classification of persons qualified for practice or unemployment in a health care occupation essential to the maintenance of the Armed Forces." This will require a different process than used to register all 18-year-old males. We have started to plan for development of the system in-house, with existing resources. This initiative will be one of my highest priorities. It will not be a return to the old "doctor draft" of the period from 1950 to 1972. This will require a new program to identify doctors of many specialties, nurses, x-ray technicians, lab technicians, as well as personnel from most other medical specialties. There is no more important task than the proper and expert care of casualties. The Military Selective Service Act itself requires that adequate medical care be provided for all inductees.

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REGISTRATION OF WOMEN

Senator PROXMIRE. Thank you, Director Lessey.

Director Lessey, how much of a cost would it be if we should expand Selective Service to include women?

Mr. LESSEY. I have no figure to answer that question, sir, and I would have to see if we could come up with one and submit that to you for the record.

Senator PROXMIRE. I would appreciate that very much.

[The information follows:]

REGISTRATION OF WOMEN

Registering women would approximately double the estimated registrant population. In order to handle the increased workload, additional personnel, material, equipment and a compliance program would total approximately $5.4 million. Annual recurring costs thereafter are estimated to be about $4.8 million.

ROLE OF WOMEN IN ARMED SERVICES

Senator PROXMIRE. As you know, I think we have done a very fine job of bringing women into the military forces recently; and they have done an outstanding job.

They are superior in educational attainment. They are superior in intelligence tests. They are superior in time on duty, with less absence without leave, including pregnancy, incidentally. They have less alcohol abuse, less drunkenness, and so forth.

They have increased the morale. They have done a superb job in the Air Force and the Navy, as well as in the Army. I think it is something we should keep in mind.

I understand in the last war that the United Kingdom did draft women. So, at least we should have that in mind.

INITIAL REQUEST TO OMB

Let me ask you this. What was your initial request to OMB, and what changes, if any, were made in that request?

Mr. LESSEY. Mr. Banister can respond to that.

Mr. BANISTER. Mr. Chairman, as you know, we submitted a 2-year budget last year for fiscal year 1989. The initial request to OMB was about $30.7 million. This amount was amended in the most recent request which we submitted to about $29.5 million. The difference between that and that which we are now requesting is $3.4 million.

The major reduction from our request was related to our proposal to develop a health care personnel delivery system. That was approximately $900,000. We had other moneys in the OMB request related to ADP enhancements and registration improvement. Additionally, we recently took—as did most other defense-related agencies—a 4-percent reduction in our 1988 budget, thereby reducing our 1989 base.

REGISTRATION IMPROVEMENT PROGRAM

Senator PROXMIRE. Now, in last year's justification, you estimated that $683,000 would be spent on registration improvement in fiscal year 1987. You actually went way over that; you spent $879,000, 29 percent more than estimated. How do you account for that cost increase?

Mr. BANISTER. Mr. Chairman, AT travel is one of the areas included in the Registration Improvement Program. We have experienced an increase in these travel costs because of the enactment of higher per diem authorizations for military personnel.

In addition, we have made greater use of our Reserve Forces Officers to perform some registration improvement duties during their periods of annual training.

Also, we increased expenditures on our public affairs activities. As you may recall, last year the President proposed a $409,000 rescission for Selective Service which was not enacted by the Congress. As a result, we did have some extra money. We put an additional $160,000 into our public affairs activities.

Senator PROXMIRE. Now, you are planning to spend only $573,000 on registration improvement in the current fiscal year. That is one-third less than you spent in 1987. Why the deep cut, and how will it affect your operations?

Mr. BANISTER. Mr. Chairman, the Registration Improvement Program is one of the programs where we have had to take some reductions based on the 4-percent reduction for fiscal year 1988.

Our intermittent salaries which we used to include in the Registration Improvement Program are the salaries of our state directors who work on a part-time basis. Many of them support that program. We are now including those salaries, which amount to about $40,000, in the overall compensation and benefits account of the agency.

One of the registration improvement areas we had to reduce was public affairs. This fiscal year we reduced our radio packages from two to one, and also our high school packages from two to one.

The efficacy of public affairs activities is very difficult to measure. It is very unfortunate but, given the budget climate which we are now in, I believe, and I am sure the Director believes that in the short term, we could sustain some minor reductions in this program.

Mr. LESSEY. I might add, Mr. Chairman, that I want to keep a close eye on that to see if we can do a better job of measuring it. We are going to keep an eye out to measure the possible impact on that because I think that the high school effort is extremely important to us.

REGISTRATION IMPROVEMENT IN MAJOR CITIES

Senator PROXMIRE. Last year, you reported that in fiscal year 1986 registration improvement activities were targeted in cities like Washington, DC, Boston, New York City, Philadelphia, Miami, San Francisco, and Los Angeles.

Over $367,000 was devoted to registration improvement activities in those cities in fiscal year 1986. So, let me ask you this. How has registration improved in these cities as a result of those efforts? And tell us in general terms now, and then you may provide details for the record.

Mr. LESSEY. In general terms, Mr. Chairman, I am not confident that we are making satisfactory progress as far as I am concerned. That is something which has come to my attention in the short term that I have been aboard, and I am definitely undertaking a major review of that.

You have to realize that a lot of our efforts in these areas are in the category of things like public service announcements and general information programs; it is sort of hard to measure their impact.

However, other things are more definitive. For instance, virtually as we talk, there is a task force of Reserve Forces Officers who are putting some effort into the high school calls and things of that nature in the Los Angeles area.

I hope that programs like this are going to bring some more specific results—more satisfactory results.

[The information follows:]

REGISTRATION IMPROVEMENT

Registration has improved in the city of Miami since fiscal year 1986 and has remained stable in the other target cities which you cited. We have had to endure budget cuts since fiscal year 1986 which have had an impact on registration. The registration improvement and public awareness financial resources were reduced during fiscal year 1987 by approximately 14 percent. Nevertheless, we have launched several new initiatives designed to improve registration using current agency funding. These initiatives include a registration reminder mail-back postcard program, a high school registration program, a pilot prison release registration program, and an occupant mailing program.

DEFENSE DEPARTMENT RECRUITING LIST

Senator PROXMIRE. I noticed in your justifications that new initiatives for registration improvement are being tested at the national level. These include a mass mailing using the Defense Department's recruiting list. How is that recruiting list compiled?

Mr. LESSEY. How is what, sir?

Senator PROXMIRE. How is that list compiled? How do you put it together? Where does it come from?

Mr. LESSEY. We get that from the Department of Defense, from the Central Recruiting Command.

Senator PROXMIRE. I want to know how they compile it.

Mr. LESSEY. I would have to submit that for the record, sir. I am not sure how they put that together.

[The information follows:]

DOD RECRUITING LISTS

The DOD recruiting list is purchased commercially by Defense from mailing list vendors. The vendors obtain names from direct mailings targeted at male youth (record companies, magazines, weight-lifting equipment, etc.) and driver's license records.

Senator PROXMIRE. From what little I know of it, I would think that these young men appearing on the Defense Department's recruiting list would be more likely to register for the draft without any reminder than almost any other group. So, why did you pick that list for a mass mailing?

Mr. LESSEY. Because, I would submit, sir, it is probably the most reliable, complete list which may be available in that age bracket, other than the DMV lists.

ON-TIME REGISTRATION

Senator PROXMIRE. Now, registering all young men within 30 days of their 18th birthday has been a primary goal of the Selective Service. Only 56 percent, barely half, of the group was meeting the statutory requirement last year.

Now, last year a Senate report expressed concern with regard to this low figure and urged the Selective Service to improve on it. What percentage of 18-year-olds are currently registering within 30 days of their 18th birthday?

Mr. LESSEY. Right now, sir, it is still about the same number; and that is a matter of concern to me as the new Director, and a matter which I shall address. We have several programs which we hope will improve that situation.

Senator PROXMIRE. This has slipped over the last few years, hasn't it? It is the same, you say, as last year?

Mr. LESSEY. No; I think it has held right at that high fifties area for the last few years. I can submit some more precise information if you want, but I checked on this within the last week: I was told that it has been just under 60 percent for the last few years.

Incidentally, I read last year's record, and I think there was a misleading figure in there of 80 percent or something. I don't know where that came from.

[The information follows:]

ON-TIME REGISTRATION

Of the young men reaching age of 18, approximately 53 percent in 1987, and 56 percent in 1986 met the statutory requirement to register within 30 days of their 18th birthday. The historical average is 56 percent. The usual pattern is that about 80 percent of the young men register during the calendar year in which they turn 18. About a year later the compliance rate normally increases to about 90 percent. Within 2 years, when these young men reach 20 years of age, and are in the first priority for a possible draft, the registration compliance figure approaches 98 percent.

REGISTRATION COMPLIANCE

Senator PROXMIRE. The earlier figure you gave was very rosy and reassuring when you said that 98 percent of the people between 20 and 25 were registering. I understand that we are talking about a lower age, but it is surprising that you do so well later on.

Mr. LESSEY. Of course, that is because of our followup efforts and our compliance efforts. Essentially, we have worked the problem by the time they are 20 years old.

We have the motor vehicle lists from all states except two. So, by the time we reach the draft eligible group of 20 to 25, we are in good shape; but, we are not happy with the fact that we don't have the attention of the 18-year-olds as promptly as we should, and we are just going to keep working on that problem.

Senator PROXMIRE. Senator Domenici?

COST OF HEALTH CARE PERSONNEL

Senator DOMENICI. I do have a couple of questions.

Mr. Lessey, what is the estimated cost of the registration of medical personnel as authorized in public law?

Mr. LESSEY. Senator, the figures which had been submitted for our fiscal year 1988 supplemental requests and fiscal year 1989 were a total of about $1.8 million over a 2-year period.

Senator DOMENICI. How are you going to get it done without the money?

Mr. LESSEY. That is a good question, sir; but, let me address it as best I can. First of all, part of the initial work we are doing in-house now, planning for the planning.

I, unfortunately, do not have any money for this particular program. I also, because of some retirements, do not have any health care personnel expertise in my organization. As I promised Senator Glenn at my confirmation hearing, I have called on the Secretary of Defense and asked for his assistance in this latter category. He has indicated that he would give us whatever support that he could.

That makes a lot of sense because everything we do—our product—is designed to help the Department of Defense; and, it makes sense for my computer product on health care to dovetail with his computer product in terms of requirements.

Senator DOMENICI. The Secretary of Defense can help you with what they need, but he cannot help you in getting the registry filled with names.

Mr. LESSEY. No. And, of course, in this plan, Senator, we are not actually, in accordance with the House report, to get into specific names and addresses. This is to be a generic plan.

Senator DOMENICI. So, you feel you can make some progress by cooperating with DOD, even without any funding?

Mr. LESSEY. I can make some progress for the next period of time. Down the line, I do need a consultant or two—I say "consultant" in the sense of whatever category of person can come into my organization with health care personnel expertise and assist me. Also, down the line, I hope to be able to handle the data management.

I will definitely need some extra money, particularly in the documentation portion of the work of the Data Management Center.

Senator DOMENICI. It would seem to me, on this issue—and then I have two brief questions on registration itself—working with the Defense Department on a profile and generic plan with reference to medical personnel needs is not too far-fetched. It seems that you might be prompting them also, as the two of you project future needs.

NEED FOR JUDICIOUS PLACEMENT OF SCHOLARSHIPS

I assume that the Defense Department is a source of enormous numbers of scholarships for our young medical men and women—those going through school.

It seems that DOD ought to be focusing some of their attention on the military's ultimate needs in that regard. I don't know whether they do nor not; but obviously, if they have a known need and there is a shortage in the environment, they ought to be placing some of their scholarships in those areas. I just throw that out because it seems very logical to me. I don't know whether they do or not. Do you?

Mr. LESSEY. No, sir. And I wouldn't speak for them, but I will comment that, in terms of trying to accomplish this mission, I have had initial discussions with some of the various Assistant Secretaries of Defense and then some of the component people. There is a tremendous amount of work going on at the Department of Defense in this whole area.

Senator Glenn, of course, has focused on the shortfalls of medical personnel in the Guard and Reserve, which is also being addressed.

ROLE OF STATES IN REGISTRATION

Senator DOMENICI. Let me change the subject, if the chairman will permit. On the bottom of page 2 of your testimony, you mention some of the activities of state governments that make your job somewhat easier.

Are those activities on the part of state legislatures, which have passed laws that require registration before student aid, all voluntary on the part of the states out there? Or is there any effort on the part of the federal government to encourage states to do such things?

Mr. LESSEY. No; those are voluntary, sir; and we make it our business at national headquarters to stay out of it. Of course, the Selective Service people who are in the states are helpful to the legislatures in providing appropriate information and whatnot; and, those things are of assistance to the effort.

Senator DOMENICI. So, is it appropriate or inappropriate for you to write Governors of states that don't have such statutes and say that Ohio and 13 other states have the following, and it has been very helpful to the registration of young men? We give you this information for your perusal. Is that appropriate or inappropriate on your part?

Mr. LESSEY. I suppose a thank you letter is not inappropriate.

Senator DOMENICI. No; I am not talking about that. I am talking about the ones that don't have it. Would it be appropriate under your charter to advise some of the Governors whose states don't have it that their sister states do have it, and it would be helpful to us if they did? Or is that an inappropriate activity on your part?

Mr. LESSEY. I basically consider that—any formal action—to be inappropriate; but, I suppose if some Governor asked me if it would be helpful, then I am going to tell him it certainly would.

PRESENT DAY OPPOSITION TO REGISTRATION

Senator DOMENICI. All right. My last question is: When we went through the exercise here in the Congress on registration, it was a period of time when that very activity was very sensitive. And immediately following that debate there were some people in America urging that young people not register.

Might I ask if you have any views now as to the attitude of young people with reference to registration? Is their failure to register principally one of lack of knowledge? Or is there still a significant negative attitude toward registration out there in the country?

Mr. LESSEY. Our feeling, sir, is that we still base a lot of the failure to register on lack of knowledge or inadvertence. That is why we continue to emphasize what we call public awareness programs.

There are pockets of things which appear from time to time. Just to throw out an anecdote, Senator Towers' former personal assistant who is sitting in this room at this time, was witness to a bunch of "do not register" stickers here in Washington, DC, up on Massachusetts Avenue. By coincidence, they all happened to be in front of the Brookings Institution; but I don't necessarily imply that there is any association there.

In general, sir, I would say it is a calm period, and we don't see a lot of dissension, so to speak.

Senator DOMENICI. All right. Thank you very much. Thank you, Mr. Chairman.

Senator PROXMIRE. Thank you very much, sir.

SUBMITTED QUESTIONS

[The following questions were not asked at the hearing, but were submitted for response for the record:]

ADDITIONAL QUESTIONS SUBMITTED BY CHAIRMAN PROXMIRE

TARGET CITIES

Question: In 1989 you plan to concentrate your registration improvement activities on target cities in the areas where the registration shortfalls are the greatest. Can you tell us briefly what major cities have been added to your target list?

Answer: In the eight years that Selective Service has been registering men, we have improved our methods of identifying and monitoring areas of low compliance and high shortfall. Our registration improvement program activities in previous years were designed to focus on these specific target city areas. In FY 1988 the Registration Improvement Program was redesigned to provide the Regional Headquarters with maximum flexibility in the use of limited registration funds to cover specific areas where shortfall and compliance rates need improvement. Because the majority of the problem areas previously identified as target cities mirror major media market areas, the target city designation was replaced with a new concept called the Public Service Announcement (PSA) Delivery Site. The following areas are included in the PSA Delivery Sites which were not included in previously used target city areas.

Portsmouth, Virginia
Milwaukee, Wisconsin
Detroit, Michigan
Juneau, Alaska
Stockton, California
Agana, Guam
Boise, Idaho
Reno, Nevada
Las Vegas, Nevada
Portland, Oregon
Eugene, Oregon
Salem, Oregon
Seattle, Washington
Spokane, Washington
Tacoma, Washington

RECRUITING MAILING LIST

Question: How much did the recruiting list mailing cost?

Answer: The February 1988 Selective Service registration reminder mail-in cards, both printing and postage, cost approximately $116,000 using the recruiting list. There is no cost to Selective Service for use of this list. The individuals receiving these cards simply fill out the information required, returning the cards to Selective Service at no cost to the individuals. Responses to the reminder postcards are already being received by our Data Management Center.

Question: Do you plan to do a recruiting list mailing in fiscal 1989?

Answer: Yes, Selective Service annually uses the DOD recruiting list to mail registration reminder postcards to young men who will be turning 18 within the year.

REGISTRATION IMPROVEMENT

Question: In the past Selective Service has had two high school print campaign mailings each year. In Fiscal Years 1988 and 1989 only one mailing will be made. How do you expect this reduction to affect registration?

Answer: We cannot be sure how the elimination of one high school mailing will affect registration because the effectiveness of this and similar awareness projects cannot be measured in terms of actual registrations. The high school kits do not contain registration forms. They simply contain publicity material which reminds men of their obligation to register at any post office. The package mailed in the fall provides school officials with materials which can be used throughout the school year. Early receipt of these posters, ad slicks, and collateral materials allows schools maximum flexibility in scheduling them for use over the succeeding nine months. However, discontinuance of our spring mailing means that fresh publicity materials will not be arriving at schools at the time when many male seniors are turning 18. Principals and teachers will be requested to reserve some of the materials from the fall kit for display or distribution in the spring.

REGISTRATION AWARENESS

Question: What is the cost of each campaign?

Answer: Each high school mailing costs approximately $70,000: $25,000 for development, $40,000 for printing, and $5,000 for postage.

THURMOND AMENDMENT

Question: The Thurmond Amendment to the 1986 DOD Authorization Act prohibits a person from working for the federal government if he is required to register and fails to do so by his 26th birthday.

In the last year's hearings with the House, Mr. Ebel testified that the Office of Personnel Management had issued a regulation requiring federal government job applicants to verify that they have registered with Selective Service. How many of these applicants have been denied jobs because of a failure to register?

Answer: The Office of Personnel Management was asked if it could furnish this information. OPM stated that this information is not being collected. To date, about 35 cases have been referred to OPM on appeal. The majority of such cases have been men who served in the military and did not know they were supposed to register. All of these cases have been resolved in favor of the federal job applicant. It is the impression in OPM that young men who are not and will not register as a criterion of employment simply do not complete their applications for employment and leave. The Thurmond Amendment was modified last year to allow the various departments and agencies to decide these cases rather than to appeal them to OPM in Washington, so future data will be even more difficult to obtain.

IMMIGRATION REFORM LAW

Question: The new immigration reform law requires that anyone applying for amnesty be registered with Selective Service. Mr. Ebel told the House Subcommittee last year that Selective Service planned to implement the system to enforce this regulation last May. Did the system actually go into effect at that time?

Answer: The Selective Service System and the Immigration and Naturalization Service developed a joint program to register all male applicants for legalization who are 18 through 25 years of age. This program commenced on May 5, 1987, and will run through May 4, 1988. To date, this program has generated over 80,000 registrations.

Question: Has the regulation affected registrations in cities with large alien populations, such as Los Angeles, which have also had serious shortfalls in registrations?

Answer: The results of the INS/SSS Registration Program are inconclusive at this point. However, to date the program has generated over 20,000 registrations in the city of Los Angeles alone.

MOBILIZATION READINESS

Question: You are requesting $6,947,000 for mobilization readiness in 1989, an increase of only $2,000 over the current estimate?

Answer: The slight increase of $2,000 for mobilization readiness is due to a variety of offsetting factors. Costs will increase due to the annualization of the FY 1988 military pay raise ($31,000), restoration in FY 1989 of the continuation training cut in FY 1988 due to the 4 percent reduction ($78,000), and inflation calculated using the OMB inflation factors ($22,000). These increases are expected to be offset by a decrease in printing requirements ($129,000).

Question: In FY 1987, your mobilization exercises included a training session for one associated local draft board from each area office. This gave the members an opportunity to participate in a simulation of their mobilization roles. You plan to continue this exercise in FY 1988 and FY 1989. How much would we be able to cut from your budget if you deleted these local board training sessions from your 1989 exercises?

Answer: The mobilization exercises in FY 1988 and FY 1989 call for the activation of one local board per area office. The activation of the boards for the exercises is in lieu of their regularly scheduled annual continuation training. There would be no cost savings associated with deleting the local board sessions from the mobilization exercise as the board members would then attend a regular continuation training session.

Question: How many local boards are there in an average area office?

Answer There are five local boards under the jurisdiction of an average area office.

MOBILIZATION EXERCISES

Question: I read in your justifications that in Fiscal Year 1989 you plan to test the data entry and communication procedures between area offices and the IBM mainframe computer at the Joint Computer Center in Great Lakes, Illinois.

You say that the test is dependent upon the availability of DOD hardware at the area office locations. What is the chance that this test will not be undertaken?

Answer: DOD advises that the first installations of this equipment are expected in October 1988.

Question: If the test were postponed, how much money would be saved?

Answer: If the test were not conducted in FY 1989, no money would be saved. A test must be conducted to verify the capability of the system. If the DOD equipment were not in place, we would simulate a large-scale test by using a much smaller network and re-access a smaller number of terminals many times over.

COMPLIANCE PROGRAM

Question: In your FY 1988 operating plan, the Compliance Program was cut 39 percent below the request. What planned activities were eliminated or postponed because of this reduction?

Answer: The primary reason for a lower current cost estimate is the reduction in our estimated expenditures for postage and printing. Postage costs should decrease because of the elimination of a postage paid reply envelope from the compliance letter. Also, we anticipated mailing fewer compliance letters this year.

Our compliance printing costs are expected to be negligible as we have a sufficient stock of stationery on hand from prior years; and, because we have gone to the acknowledgment and verification postcards, the stationery we purchased for these purposes can now be used for compliance mailings.

We will continue the same high level of emphasis on compliance as we have in prior years. No planned activities will be eliminated or reduced to accommodate this decrease in program costs. Selective Service has received or confirmed over 2.8 million registrations as a result of this program; consequently, every effort will be made to keep this program viable.

Question: How would your operations be affected if we held your compliance budget to the level contained in your 1988 operating plan and did not approve your requested 38 percent increase?

Answer: Our FY 1988 operating plan reflects lower than normal costs related to the compliance program because of the availability of a sufficient stock of printed stationery on hand. Because we expect that this stock will be depleted by FY 1989, it is imperative that we reorder next year. Without sufficient resources to replenish this stationery, Selective Service would be unable to continue the mailing of compliance letters to suspected nonregistrants. In other words, the primary thrust of our compliance program would cease.

ADMINISTRATIVE COSTS

Question: You are estimating the expenditure of $13,274,000 for administrative costs in the current Fiscal Year, almost $1 million less than your initial request. How did you achieve these savings?

Answer: The savings in our administrative costs are partially attributed to a decrease from our initial estimate for the new Federal Employees Retirement System. OMB originally estimated that 28 percent of the eligible employees would switch to the new retirement system. The current estimate has been lowered to 3.5 percent. In addition, printing, communication, and equipment estimates have decreased. Also, maintenance costs are less than anticipated because of the purchase of new equipment in FY 1987; and, we have fewer active duty personnel on board than originally planned.

Another reason for the decrease in administrative expenditures is not due to a saving, but to the transfer of space rental for our computer center in Alexandria from the administration program to the ADP program. This better correlates to our Report on Obligations for Information Technology Systems and more accurately reflects program costs. The initial GSA estimate for Headquarter's space rental also decreased from $1,058,000 to $936,000.

ALTERNATIVE SERVICE PROGRAM

Question: The Alternative Service Program allows conscientious objectors selected for military duty to fulfill their obligations by performing related civilian work.

Regulatory changes to this program were made last year. Could you briefly describe the changes that were made?

Answer: Effective March 20, 1987 (54 Federal Register 8889) two changes were made in our Alternative Service Regulations (32 CFR Part 1656). Section 1656.2 was revised to assure that an order to perform alternative service could be postponed on the same basis as could an order to report for induction. Section 1656.5(e) was revised to assure that a registrant required to perform alternative service following his separation from the armed forces because of his conscientious objection could seek his own alternative service work on the same basis as a registrant required to perform alternative service who had not been in the armed forces.

Question: In last year's justifications you indicated that the Registrant Information and Management System (RIMS) would be changed with respect to Alternative Service processing. Program changes to the system were scheduled for completion in June 1987. Was the system changed at that time?

Answer: In February 1987 we revised and reissued the chapter of the RIMS Manual dealing with Alternative Service. The purpose of the revision was to clarify procedures, make the chapter easier to read and information easier to locate, and facilitate the administration of the program. We expanded the section dealing with alternative service employers and the important role they play in this program. We also set forth in more detail than previously the provisions governing travel of alternative service workers and the type of assistance the Selective Service System can provide. Changes to the automated data system related to the means of identifying alternative service employers in the data base. As a result of the changes, we now have the ability to locate any employer anywhere in the nation from one list rather than having to consult lists for each alternative service office.

Question: Can you describe, in laymen's terms, the benefits of the changes?

Answer: The changes were designed to simplify the work of the alternative service offices and enable them to provide better service to the alternative service worker by assisting him with his travel, locating a suitable job, and receiving all the rights to which he is entitled. We believe that we can administer a better program as a result of the clarifications and changes made in the manual and the ADP system last year.

COST OF REGISTRATION

Question: In last year's hearings with the House, you projected that the cost per Post Office registration would increase from $.65 to $.68. What was the actual cost of post office registration last year?

Answer: For FY 1988 the cost of each registration processed by the U.S. Postal Service is $.68. The total actual cost of USPS registrations for FY 1987 was approximately $952,000.

Question: What are you projecting the cost to be next year?

Answer: The U.S. Postal Service has informed Selective Service that the cost will be $.72 for each registration processed in FY 1989.

AUTOMATED DATA PROCESSING

Question: You are requesting $1,563,000 for automated data processing (ADP). In your Fiscal Year 1987 operating plan, you indicated you would spend $1,356,000 on ADP. You actually obligated $1,894,000, a 40 percent increase over the original estimate, through the use of funds proposed for rescission. Why did you channel these funds into the purchase of ADP equipment rather than into compliance, to take one example, where you had to take a cut in your 1987 operating plan?

Answer: The funds which became available when the proposed recission was not enacted were channeled to the purchase of ADP equipment. The word processors in use in the Agency were purchased in 1981. The vendor, NBI, informed the Agency that it would not provide maintenance for the machines beyond 1988. Because of the age of the machines and the extensive use they received over the years, the machines need frequent repairs. A study was performed by the Agency and it was determined that the NBI word processors should be replaced by personal computers.

Although less money was spent for the compliance program in FY 1987, largely because of reduced printing requirements, emphasis in this program has not diminished. In fact, a number of initiatives were taken in the compliance area which could have a significant favorable impact in on-time registration rates. The reminder registration card initiative resulted in the mailing of over one million registration reminder cards to high school seniors to remind them to register when they reach the age of eighteen. Early returns appear to show that more on-time registrations may result from this initiative.

Question: One would have expected a decline in future ADP costs because you were able to spend so much more in 1987 than originally planned, yet I notice your 1988 ADP costs exceed initial estimates. Why did your 1988 costs go up by $105,000 over your estimate?

Answer: The primary reason the current ADP estimate exceeds the original estimate is the inclusion of space rental for the Alexandria Computer Center in this program. In last year's justification it was included under general administrative expenses. In addition, the current estimate for reimbursement to MEPCOM is lower than originally expected, but there are additional telecommunication requirements for the SDTS system and for secure telephones. However, the decrease in MEPCOM and increase in telecommunication expenses practically offset each other.

QUESTIONS SUBMITTED BY SENATOR D'AMATO

COMPLIANCE PERCENTAGES

Question: As of January 1, 1988, 98.4% of those required to register for the draft had done so.

How does this figure compare with that from one year ago?

Answer: As of January 1, 1988, 98.4% of those required to register for the draft had done so. As of January 1, 1987, the comparable figure for those who had registered was 98.4%.

Question: Given your current registration improvement activities, what figure do you anticipate one year hence?

Answer: Based upon historical trends, we anticipate that one year hence, the figure will be approximately 98%.

NATIONAL CREDIT UNION ADMINISTRATION

STATEMENT OF HON. ROGER JEPSEN, CHAIRMAN, NATIONAL CREDIT UNION ADMINISTRATION

ACCOMPANIED BY:

FLOYD A. LANCASTER, ACTING PRESIDENT, CENTRAL LIQUIDITY FACILITY

ROBERT M. FENNER, GENERAL COUNSEL

MICHAEL RILEY, DIRECTOR, OFFICE OF EXAMINATION AND INSURANCE

WILLIAM C. POLING, BUDGET OFFICER

OPENING REMARKS

Senator PROXMIRE. Our next and final witness will be the Honorable Roger Jepsen, Chairman of the National Credit Union Administration and a former colleague. We are delighted to see our former colleague, Roger Jepsen.

It is nice to have you before us for a second straight year, Roger.

Senator JEPSEN. It is good to see you.

Senator PROXMIRE. Once again, Senator Jepsen, you are presenting a straight-forward budget, requesting continuation of the $600 million limitation on new loans and an operating budget of $880,000, an increase of $67,000 over your current budget.

We look forward to your testimony. Your prepared statement will be included in the record in its entirety. Unfortunately, I am going to have to go to the floor. I have a statement I have to make as soon as we open at 11 a.m. When I leave, I am going to ask Senator Grassley, our colleague, if he will take over. Please go right ahead.

INTRODUCTION OF ASSOCIATES

Senator JEPSEN. Thank you, Mr. Chairman. My opening statement, which will be very brief, I have in writing. I understand that it will be entered in the record as if read.

I would introduce, Mr. Chairman, here appearing with me today are Floyd Lancaster, the Acting President of the Central Liquidity Facility—on my immediate right—and D. Michael Riley—on my immediate left—Director of NCUA's Office of Examination and Insurance; Mr. Robert Fenner, General Counsel is on my far left here; and Mr. William Poling is on my far right, and he is the Budget Officer for the agency.

BUDGET REQUEST

As you have indicated, sir, we are requesting a $600 million limit on new loans. That is the same as it has been for the last 8 years, and it has proved to be adequate; it has remained constant.

Regarding the CLF's operating expense, we are requesting a $880,000 limitation. This is a slight increase over the amount we have received approval for in the past. I would point out that last year our President of CLF did leave for a new responsibility; had we replaced the president, as far as the personnel on staff, we would have had a very tough time meeting the budget that was cut last year.

CREDIT UNION STATUS

In any event, I am pleased to report that during the last fiscal year, the credit unions across the country are doing well. Some trends that have concerned us in the past have turned around. We were concerned about the very rapid growth and the decrease in the loan/share ratios that we had. By the end of 1987, the growth had slowed considerably. The amount of loans at credit union bases had increased for the first time in a couple of years. So, everything is headed in the right direction.

CLF'S ROLE

With that, Mr. Chairman, I respectfully ask that you support the authorization request in order that we might be able to respond quickly to the changes in the credit union community. I would say to you that the CLF's role, of course, is a lender of the last resort. It provides emergency funds and it bolsters public confidence during the periods of liquidity strain.

I thank you for the opportunity to appear and to present NCUA's request today. We would be very pleased to answer any questions that you may have.

[The statement follows:]

PREPARED STATEMENT OF ROGER W. JEPSEN

Mr. Chairman and members of the subcommittee, thank you for this opportunity to appear before you and present our request for the NCUA Central Liquidity Facility.

Appearing here with me today are Floyd Lancaster, Acting President of the Central Liquidity Facility; D. Michael Riley, Director of NCUA's Office of Examination and Insurance; Robert M. Fenner, General Counsel; and William Poling, Budget Officer for the agency.

For fiscal year 1989, as in the last 8 years, we are requesting a $600 million limit on new loans. That requested limit has remained constant for the last 8 years and, I might add, has proven adequate throughout the period. Regarding the CLF's operating expense, we are requesting that the committee consider an $880,000 limitation when approving our portion of the HUD-Independent Agencies budget. This is a slight increase over the amount we have received approval for in the past.

I am pleased to report that in the past fiscal year, credit unions across this country were again very liquid because of significant share growth; however savings growth flattened out during the last half of 1987. Although loan demand is increasing, indications are that credit unions will remain fairly liquid for the balance of fiscal year 1988. As we look toward fiscal year 1989, we anticipate moderate savings and asset growth.

When danger signs in credit union operations begin to appear, the Central Liquidity Facility should be prepared to respond, and we believe the committee's authorization of a $600 million new loan limit will remain adequate for fiscal year 1989. Prudent funds management by credit unions, coupled with the existence of a corporate credit union network, should continue to keep new loan demand well below our request.

At the close of fiscal year 1985, the CLF's outstanding loan portfolio balance was $222 million. By the end of fiscal year 1986, it had been reduced to $106 million, and closed at $111 million at the end of fiscal year 1987. This was in part the result of credit unions restructuring their balance sheets by reducing their outstanding obligations. As we move through fiscal year 1988, the total loan balance should continue to remain fairly constant. At the present rate of payback, it is conceivable that the loan portfolio balance at the close of fiscal year 1988 could be in the $100 to $110 million range. However, the attached schedules do reflect our projection that there will be a slight increase in new loans to credit unions in fiscal year 1988 and fiscal year 1989 as the economy tightens up slightly.

Mr. Chairman, we respectfully ask that you support our authorization request in order that we may respond quickly to changes in the credit union community. By supplying emergency funds, the CLF bolsters public confidence during periods of liquidity strain.

Thank you for the opportunity to appear before the subcommittee to present NCUA's requests for the Central Liquidity Facility. We would be pleased to answer any questions.

NEW REGIONAL OFFICE OPENING

Senator GRASSLEY [presiding]. Roger, before I ask questions that Senator Proxmire would have asked, I want to thank you for the opening of the regional office in Sioux City. I think that, considering the distance that the northern states had to go for service and contact in that area, all the credit unions in those states, I am sure, will be very pleased with the fact that you did that. Already, I understand that it is being well utilized.

Senator JEPSEN. Yes; it is, Senator. I was pleased that the facts of the situation dictated it. I looked at Lincoln, Omaha, and Sioux City when we reorganized that region. That region, Region 5, extends from the Gulf of Mexico to the border of Canada.

At one time we had a regional office, before the reorganization, which picked up the states of Minnesota and Iowa. We had Denver as the district office, which at that time was sort of in the central northern part of that huge area; but because of reorganization, Denver became the westernmost border of the region. So, we made the decision to move to Sioux City to be closer to the credit unions in the Dakotas, in Nebraska, Iowa, and Minnesota.

It will facilitate and provide better service, which is what we all want for the credit unions and, therefore, their members. So, I appreciate your observation and your comments.

BUDGET REQUEST TO OMB

Senator GRASSLEY. All right. How does your budget request compare to the amount that you initially requested of the Office of Management and Budget?

Senator JEPSEN. I will refer that to Mr. Poling, our Budget Officer.

Mr. POLING. We originally requested $847,000 in fiscal year 1988; and in fiscal year 1989 we requested $880,000.

LOAN PORTFOLIO BALANCE

Senator GRASSLEY. Last year, Senator Jepsen, you told us, and I quote: "At the present rate of payback, it is conceivable that the loan portfolio balance at the close of fiscal year 1987 could be in the $60 to $75 million range."

Your schedules, however, projected loans receivable of $129 million at the end of fiscal year 1987, and you ended up with loans receivable of $111.5 million. I note that your schedules anticipate loans receivable growing from $111.5 million in 1987 to $161.5 million in 1989.

Your payback rate is not nearly as robust as it was last year at this time? Would that be a correct observation?

Senator JEPSEN. That is correct. In addition to that, Senator, this was partly the result of the credit unions restructuring their balance sheets by reducing their outstanding obligations. As we move through fiscal year 1988, the total loan balance should continue to remain fairly constant. At the present rate of payback, it is conceivable that the loan portfolio balance at the close of fiscal year 1988 could be in the $100 to $110 million range. However, the attached schedules, if those are the ones that you are referring to, do reflect our projection that there will be a slight increase in new loans for credit unions in fiscal years 1988 and 1989 as the economy tightens up slightly.

NEW EXAMINER STAFFING

Senator GRASSLEY. Last year you had indicated that you had received approval from OMB for 205 examiners, in addition to the 356 that you had on board in 1986. Apparently those additional positions were to be phased in over a 2-year period. How many examiners do you currently have and what is the target for fiscal year 1989?

Senator JEPSEN. I will refer that to Michael Riley, who is the Director of our insurance fund and our examination force.

Mr. Riley?

Mr. RILEY. We have presently brought on board most of those 205. We are still understaffed by about 20 in the nation. So, we have in total about 560 examiners on board right now.

EXAMINER RATIO

Senator GRASSLEY. All right. Last year, we were told that you would have 1 examiner for every 43 units. Has that ratio changed, if at all?

Mr. RILEY. Yes; it has gone down to about 1 to every 30 to 35.

Senator GRASSLEY. Is your examination cycle still 12 months?

Mr. RILEY. Yes, sir.

COMMUNITY DEVELOPMENT REVOLVING LOAN PROGRAM

Senator GRASSLEY. All right.

Senator Jepsen, I understand that in 1986 the National Credit Union Administration assumed jurisdiction over a community development revolving loan program for credit unions serving low-income communities and that the loan fund had a $6.5 million balance at that time.

CDRLP STATUS REPORT

I also understand that last year you issued regulations and received applications from 35 low-income credit unions. Could you give us a status report on that program?

Senator JEPSEN. Yes. We have not made any new loans in fiscal year 1988, and we have advised the applicants that we will not be able to make any new loans under the present circumstances in fiscal year 1989.

The reason for this, Senator, is that we were informed by OMB that both the administration and the Congress desire that no new loans were to be made and that no provisions for the CDCU loans were made in the Budget Reconciliation Act.

Specifically, the total figure agreed to for federal domestic assistance programs included no amount for this program. As a result, if any new loans were made, this would result in the need for further domestic assistance cuts elsewhere. Now, this guidance was also reflected in the budget passback document received from OMB, and even more specifically where the reconciliation directed that none of these domestic aid programs was to exceed last year's amount that any of these agencies spent.

For all kinds of reasons, known both to this committee and others, with regard to the transfer of the CDCU from HUD to the NCUA, there wasn't any money spent. So, we were at base zero, any way that you look at interpretations of the law, the directions from OMB, or the intent as we tried to read from the legislation itself.

So, that is sort of the situation. I would ask my legal counsel, Mr. Fenner, if there is anything he would care to add.

Mr. FENNER. No; I think you have covered it.

Senator GRASSLEY. All right. Could you tell us what provisions of the budget summit agreement prohibit the use of revolving loan funds? And could you submit to this committee the statutory or report language that would be required in your opinion to allow the program to go forward using dollars currently in the fund?

Senator JEPSEN. Yes, we will be glad to do that.

[The information follows:]

The committee intends that the National Credit Union Administration Board implement during fiscal year 1989 the community development revolving loan program for credit unions, utilizing monies currently in the community development revolving loan fund.

CDRLP ASSISTANCE

Senator GRASSLEY. Back in 1980, the revolving loan fund helped a state-chartered credit union in Milwaukee, which serves a low-income community. However, the regulations you issued last year would not allow loans to be made for remedial purposes to struggling credit unions such as the one that Senator Proxmire referred to in this question, which was in Milwaukee.

When did you decide to bar that kind of struggling credit union from the use of the fund?

Senator JEPSEN. If I may, Senator, I would like to take that and get that specific credit union—you know, we have 15,000 of them, and the applications for aid or assistance are considerable.

LOW-INCOME CREDIT UNION ASSISTANCE

Senator GRASSLEY. Let's back up and say that the intent of my question was not that specific. We were just using that credit union as an example, but the whole area of remedial help for low-income credit unions is the question.

Senator JEPSEN. Again, are you referring to the community development credit union fund? Is that what you are getting at?

The community development credit union fund is to provide assistance, and assistance is just what it means. That is, where there is a need to strengthen a credit union, we have set up procedures and the applications—at my direction, I might add—that would open up or would permit an issuance of funds to a credit union on the basis that it would become, with this assistance, a viable credit union.

Again, we would have to go back and take each case on an individual basis because I don't believe that anyone's intent is that we take money, regardless of what source we have it from in NCUA, and put it or pour it into a failing institution that is going to go down the tubes no matter what.

We set up these standards, by the way, and reviewed this; and we have reviewed these applications coming in on the basis of a history that I have reported to me on what has happened in the past with OEO credit unions.

Senator GRASSLEY. You should not read our question, though, to mean that we are indicating that the funds should be used for a credit union that otherwise was going to go down the drain regardless.

It is our understanding that some of this money—several years back, you know—was used for this purpose.

Senator JEPSEN. From HUD?

CDRLP BACKGROUND

Senator GRASSLEY. The Office of Economic Opportunity, we think it was.

Senator JEPSEN. I will let someone who has a longer institutional memory than mine answer that question because this was before my time. He can address your last comments and question.

Mr. RILEY. There were different varieties of grants and assistance given to credit unions of different types in the OEO or community based. I would say for a struggling credit union, we have normal financial systems available to our deposit fund right now through our examiner staff.

I think the CDC program, as we view it, as we think the legislation views it, is to establish viable community credit unions today, based on their being able to provide services and not to bail out an institution that is failing in some way.

We have other ways of dealing with that currently. What we are trying to do is to make sure that any money that we would spend, whether from CDC funds, revolving loan funds, are from the national credit union share insurance fund, and is in the best interest of all 15,000 credit unions that we insure.

CDRLP REQUIREMENTS

Senator JEPSEN. The CDCU, as I understand it—and I know that much of our research and parameters and ground rules we put in place for this program—is based on the fact that it was put in place to stimulate economic activity in a low economic activity area. That is not quite the same as it has been used and looked at in the past where, again, it may be viewed by some—and we have had some applicants that have had that opinion—that we were just to give them money and let them go use it as they decided they would; and they didn't have to comply with some basic ground rules.

That is all we did when we put these regulations in.

Senator GRASSLEY. All right. Maybe for the record, you could give us any sort of approaches or ideas that you have or a program that you have that helps struggling credit unions.

Senator JEPSEN. I will be glad to do that. You know, we haven't turned down any credit union. We haven't given any credit union any money; and if Congress wants to specifically direct us to, we would be very pleased to do it.

Right now, as I have indicated, the interpretations are that OMB says we may not. The Reconciliation Act says that we may not. And there were no provisions made for CDCU loans made in the Budget Reconciliation Act.

(The information follows:)

We provide close examiner supervision and contact during the first months of a credit union's operation. During this time we provide extra training, assistance, and guidance.

CDRLP TECHNICAL ASSISTANCE

Senator GRASSLEY. While we are also discussing the needs of low-income credit unions, I would like to raise the issue of technical assistance. I understand the community development revolving loan program has a technical assistance component. Have you made any efforts to provide such assistance to low-income credit unions generally by working with technical assistance organizations?

Senator JEPSEN. I will have the General Counsel or Mr. Riley respond to that.

Mr. RILEY. I think about $120,000 is earmarked for technical assistance, and we are looking for people involved in the field, probably to spread it out nationally.

We think that, for the most part, our examiners, the league services, or the credit union trade association can provide most of the technical assistance that is needed.

JOINT BANK REGULATORS ASSISTANCE

Senator GRASSLEY. Have you communicated with other banking regulators about the possibility of developing some sort of joint approach to the creation of alternative facilities, such as credit unions, to fill the gaps created by banks moving out of low-income neighborhoods and away from small depositors?

Senator JEPSEN. In fact, on several occasions that has actually happened—one in Chicago—and there may be others where a bank just simply did not desire to give service in a particular area and, at the same time, had some conscience about it. So, they got together with credit union folks, and the credit union was established with the support of the bank in that area to provide this service to the more-or-less less affluent folks, which is the history of credit unions themselves.

Senator GRASSLEY. Have you taken any initiative to stimulate that sort of movement and involvement—I mean, your organization?

Senator JEPSEN. None that I know of on a formal basis. We stand ready to do this; and in our own chartering, of course, we have education programs on that. It is something I suppose I could discuss with Bill Seidman and the folks who are in the banking area; but it is not anything that we have done on a formal basis.

Senator GRASSLEY. You can supply information like that for the record?

Senator JEPSEN. We will be pleased to respond and reflect on that.

[The information follows:]

This area is currently under study and to date the system works fine. We will pursue better communication in this area with the other regulators.

Senator GRASSLEY. We have two other questions we will submit to you for a written response, as well.

Senator JEPSEN. All right.

Senator GRASSLEY. Senator Domenici?

TREND IN SECOND MORTGAGES

Senator DOMENICI. I just have a general question, Mr. Chairman.

Under the new tax law, limitations have been imposed on deductions for interest. Because of these interest deduction limitations, consumers may be invited—for lack of a better word—to move toward real estate loans or mortgages—be they first or second trusts. I wonder if you have any evidence that there is a significant or noticeable movement by users of the credit union system toward second mortgages on homes or real estate?

If so, how significant is it? And what kind of information could you supply the committee that would give us some idea of whether it is happening in large amounts or to substantial degrees?

Senator JEPSEN. We will be pleased to respond to that, and we will supply that, Senator Domenici. There is no question that the home equity loans are—and I don't know whether you can describe them as such, but they are really— booming. Of course, the entire financial community is advertising to promote this.

Credit unions are maybe not doing it to the extent of some of our sister thrifts, but they certainly are doing so also. The tax law, which now brings down the interest to 40 percent—and was formerly 100 percent—of what can be deducted on consumer type loans, is causing these institutions to urge consumers to consolidate, and the programs are going on. It is a big move. We will give you all the information we can on it.

[The information follows:]

Real estate loans increased by 48 percent in credit unions. A substantial portion of this was home equity loans.

INTEREST DEDUCTION TRENDS

Senator DOMENICI. It seems to this Senator that, during consideration of this legislation, the debate and discussion clearly indicated that the unlimited ability to deduct one kind of interest and an extreme limitation on another would be an invitation to an exorbitant use of the interest deduction on real estate and home mortgages.

It is not that this Senator is opposed to the interest deduction on home mortgages, even second homes; but I think it is inevitable that, if this becomes a major trend, there may be some limitation imposed. It will be interesting to watch how this unfolds.

There probably is less activity in your system than in some other very large institutions where $300,000. $400,000, and $500,000 loans are made.

If you could show us the trend with some substance, it would be interesting, at least to me.

Senator JEPSEN. We certainly will. I think there is a $100,000 limitation on home equity loans for interest, isn't there?

We will give that information to you, Senator.

Senator DOMENICI. I am informed that when we passed the tax bill, there was no limitation on the deduction of mortgage interest but that we have already put $100,000 on it at reconciliation at a later date.

Senator JEPSEN. To my knowledge, they had put $100,000 limit on it.

Senator DOMENICI. Yes; that is it. Thank you, Mr. Chairman.

Senator GRASSLEY. Senator Jepsen, we thank you very much for your and your staff's appearance and your justifications for your request.

SUBMITTED QUESTIONS

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR PROXMIRE

NCUA—LOANS AND INVESTMENTS

Question. In comparing your object classification table on page 11 with last year's table, I note that while 1987 loans and investments were estimated to be $166 million last year, the final 1987 figure was $325 million. Can you tell us why your initial estimate was so wide of the mark?

Answer. For two reasons. First, the CLF disbursed $50 million more in loans than originally estimated—$35 million in May 1987 and $15 million in August 1987. Second, annual capital stock purchase adjustments increased $68 million during 1987, which was significantly more than the $10 million that was predicted.

NCUA—MEMBER DEPOSITS

Question. In looking at your balance sheet I see that member deposits are expected to drop from $14,083,000 in fiscal 1987 to $8,793,000 in fiscal 1988. Can you tell us why you anticipate this sharp drop in member deposits?

Answer. We expect that direct members from several states will request a transfer of membership in the CLF through agents. Although there is no loss of capital stock, only a change in capital stock classification from regular to agent, there is a direct loss in member deposits. Deposits are withdrawn during the transfer process.

QUESTION SUBMITTED BY SENATOR D'AMATO

SAVINGS GROWTH RATE

Question. You mentioned in your testimony that the savings growth rate in many of the credit unions flattened out during the last half of 1987. To what do you attribute this decline? Do you expect that rate to turn around at all in 1988?

Answer. A trend noted in all financial institutions, part of the decline was the reduction in dividends by credit unions. The rate should return to normal levels of 12 to 15 percent in 1988.

SUBCOMMITTEE RECESS

This concludes today's hearing. This committee will convene in 2 weeks on March 14 for a hearing with the Veterans' Administration in the same room at 10 in the morning.

[Whereupon, at 11:11 a.m. Monday, February 29, the subcommittee was recessed to reconvene at 10 a.m. Monday, March 14.]

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT-INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1989

MONDAY, MARCH 14, 1988

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10 a.m. in room SD–124, Dirksen Senate Office Building, Hon. William Proxmire (chairman) presiding.

Present: Senators Proxmire, Grassley, and Nickles.

VETERANS ADMINISTRATION

STATEMENT OF HON. THOMAS K. TURNAGE, ADMINISTRATOR OF VETERANS AFFAIRS

ACCOMPANIED BY:

WILFRED EBEL, CHIEF MEMORIAL AFFAIRS DIRECTOR
JOHN VOGEL, CHIEF BENEFITS DIRECTOR, VETERANS ADMINISTRATION
DR. JOHN GRONVALL, CHIEF MEDICAL DIRECTOR, DEPARTMENT OF MEDICINE AND SURGERY, VETERANS ADMINISTRATION
TOM HARVEY, DEPUTY ADMINISTRATOR
GARY COLE, DIRECTOR, BUDGET SERVICE
JOHN IVERS, GENERAL COUNSEL
DAVE COX, ADA/MANAGEMENT
MS. SUSAN LIVINGSTONE, ADA/LOGISTICS

BUDGET REQUEST

Senator PROXMIRE. The subcommittee will come to order. Today, we will hear from Gen. Thomas K. Turnage, Administrator of Veterans Affairs, and his colleagues regarding the fiscal year 1989 budget request of the Veterans Administration. In fiscal year 1989, the VA is requesting almost $28 billion, an increase of about $865 million over current funding. Almost $16 billion of this total request, more than half, is for entitlement programs over which the committee has no control. The largest proposed increase in the remainder of the budget is in medical care costs, where we will be looking at a proposed $208 million increase, boosting appropriations for this account to over the $10.3 billion level, although even with this additional spending, it would be necessary to cut back medical care personnel.

Although your budget presentation would seem to indicate you would be receiving a substantial increase in the loan guaranty fund, as we all know, a fiscal year 1988 supplemental will change this picture considerably.

PREPARED STATEMENT

General, before you continue, Senator D'Amato, though he is unable to be with us this morning, has submitted a written statement for inclusion in the hearing record. Without objection, it will be placed in the hearing record at this point.

[The statement follows:]

PREPARED STATEMENT OF SENATOR ALFONSE D'AMATO

Mr. Chairman, I commend you for addressing the important role that the Veterans Administration plays in serving the veterans of our country. I have always been a strong supporter of our veterans, and I am pleased to be discussing their future today.

The President's fiscal year 1989 budget requests $30.1 billion in new budget authority and $29.5 billion in outlays to fund medical, compensation, and other programs for the nation's 27.5 million veterans and their dependents.

While this request represents an increase of approximately $865 million above funds appropriated in fiscal year 1988, it is still less than would be required if current law and policies continued ~~for fiscal year 1989~~. I am concerned that this request may be insufficient to fully meet the needs of this nation's veterans in the coming fiscal year.

I am especially concerned that the budget proposes to cut medical care staffing by an equivalent of 1,782 full-time employees. These cuts seem particularly short-sighted given the projected increase in the number of veterans who will require health care in 1989. This reduction in staffing may also leave the VA ill-prepared to deal with the demands of our aging veterans and the growing number of veterans who suffer from AIDS.

While I would encourage the VA to make improvements in its overall medical staffing, I am pleased to note that the fiscal year 1989 budget contains an initiative to improve the VA's recruitment and retention of qualified nurses. Shortages of registered nurses are occurring in VA medical facilities across the country and are especially acute in the Northeast. Addressing this shortage is crucial if we are to ensure quality health care for those who have served our nation's defense.

I would also like to commend the VA for continuing its commitment to expanding the state veterans home program. The $42 million requested for construction of state extended care facilities will provide an additional 732 nursing home beds and 22 domiciliary beds. I am pleased that the VA is addressing the long-term care needs of the veterans in this country.

I look forward to working with my colleagues on this subcommittee and with the administration to ensure that our veterans continue to receive the top priority they deserve.

Thank you, Mr. Chairman.

SUMMARY OF REQUEST

Senator PROXMIRE. We are delighted to have you with us today, General. Let's have you go ahead and summarize your statement, and then we will proceed to the questions.

General TURNAGE. Thank you, Mr. Chairman. It is a pleasure to be with you this morning to discuss the VA's fiscal year 1989 budget request. I would like to briefly summarize this request, highlighting some of the agency's major accounts.

The largest portion of this budget request is for the Veterans Entitlement Program, which, at $16 billion, constitutes over 58 percent of the total budget. About two-thirds of these funds, or $10.7 billion, will provide compensation payments to over 2.5 million veterans and survivors. Another $3.9 billion will provide pension payments to 1.2 million recipients.

We are proposing to index compensation benefits to the Consumer Price Index to ensure timely recognition of cost-of-living increases. We have requested $658 million to support operations in the loan guaranty revolving fund. This request would fund nearly $3.7 billion in obligations estimated for fiscal 1989.

I am pleased to note that while the President's budget is in compliance with the bipartisan budget agreement, the VA's share allows us to continue to provide quality medical care to America's disabled and needy veterans.

We are requesting a medical care budget of over $10 billion. The funds will provide for the medical care and treatment of 1.2 million inpatients and over 23 million outpatient visits. Over 192,000 full-time equivalent employees are requested to meet the medical needs of these veterans. To help alleviate the nursing shortage, the Veterans Administration has requested legislation to expand the authority to allow tuition reimbursements to nurses for nursing degree-related courses.

We are requesting $47.4 million for memorial affairs. Total interments are expected to increase 2.5 percent to a total of 56,400. Funding is included in our construction budget for the expansion of the Calverton National Cemetery by 90,000 gravesites. Also requested is funding for maintenance and repair projects in order to preserve the national cemeteries as fitting tributes to our nation's veterans. In construction, the VA's request for fiscal 1989 includes over $500 million for projects at medical centers, regional offices, and in national cemeteries.

Major construction funds are proposed for 14 sites, including construction funding for replacement and modernization projects in Atlanta and Pittsburgh.

The budget request also includes funds for a domiciliary at Mountain Home and for large clinical projects at Beckley, Nashville, Perry Point, and San Antonio.

Mr. Chairman, I believe our budget request reflects the necessary concern for fiscal restraint, while supporting our commitment to meeting the needs of our veterans. My staff and I will be pleased to answer any questions you may have.

INTRODUCTION OF ASSOCIATES

However, if you will allow me, at this point, to introduce the people who have joined me here at this table. On the far right, to your left sir, Mr. Wilfred Ebel, who is with the Department of Memorial Affairs; then Mr. John Vogel, Veterans Benefits; and Dr. John Gronvall, who is Chief Medical Director. To my right is the Deputy Administrator, Mr. Tom Harvey; to my left, sir, is Mr. Gary Cole, who is representing our

Controller this morning; and then the General Counsel, Mr. John Ivers; Mr. Dave Cox of Management; and Ms. Susan Livingstone of Logistics.

PREPARED STATEMENT

Senator PROXMIRE. General, thank you for a fine summation. Your prepared statement, as well as those submitted by your colleagues, will be printed in the hearing record in full.

[The statements follow:]

PREPARED STATEMENT OF HON. THOMAS K. TURNAGE, ADMINISTRATOR OF VETERANS AFFAIRS

Mr. Chairman and Members of the Committee, I appreciate this opportunity to appear before you today to present the Veterans Administration [VA] FY 1989 request of $30.1 billion in new budget authority to fund medical, compensation, and other programs for the Nation's 27.5 million veterans, eligible members of their families, and survivors of deceased veterans.

Included in this amount is an appropriation request for $27.9 billion, a net increase of $1.5 billion related to proposed legislation and $694 million in permanent authorizations and offsetting receipts. The VA's FY 1989 request represents an increase of approximately $865 million above funds appropriated in FY 1988. Budget outlays for FY 1989 are estimated at $29.5 billion. Average employment [FTEE] is expected to decrease by 2,439 from the 1988 current estimate to a level of 219,830.

I would like to take this opportunity to assure you that sufficient resources are being requested in this budget to enable the Veterans Administration to meet its goals and objectives in 1989. Quality medical care for America's disabled and needy veterans is one of this administration's highest priorities.

The budget being requested provides ample resources to furnish care to all veterans expected to apply for, and be in need of, care. No-cost care will continue to be provided to all service-disabled veterans who request it, as well as to former prisoners of war, veterans exposed to toxic substances and radiation, and all lower and middle income veterans who apply. The level of patients seeking medical care in our facilities continues to increase. It is estimated that new highs of 1.2 million inpatients and 23 million outpatients will seek VA medical treatment. As indicated by the continuing drop in length of stay for inpatients, this growth in demand is being met by the introduction of new technology which increases productivity and improves the services provided by our medical personnel.

This budget request continues to support the Administration's efforts to improve administrative procedures and to increase efficiency. The FY 89 budget contains more than $21 million for three important efforts to strengthen the Agency's infrastructure. These initiatives are: Financial Management Systems [FMS], Personnel Accounting and Integrated Data [PAID] Redesign and the Integrated Supply Management System [ISMS].

I will now summarize the VA's FY 1989 request, highlighting the budget issues for each of the major accounts.

COMPENSATION

The 1989 budget requests $10.7 billion, under existing law, to provide compensation payments to 2.2 million veterans and 323,000 survivors. The 1989 funding request reflects the full year impact of the 4.2 percent compensation rate increase provided to all recipients effective December 1, 1987.

Legislation is being proposed to index compensation benefits to the annual change in the Consumer Price Index. Enactment of this proposal would guarantee that all compensation recipients are provided a full and timely cost-of-living adjustment. It is currently estimated that the first such "automatic" cost-of-living adjustment, effective December 1, 1988, will be 4.2 percent and cost approximately $361 million.

PENSIONS

The 1989 budget submission includes an appropriation request of $3.9 billion. This amount is needed to provide payments to 1.2 million eligible recipients. The 1989 caseload estimate is 68,000 below the 1988 estimate. The caseload reduction reflects the recent trends in this program. Although it is anticipated that the number of veterans age 65 and older is expected to increase during this decade, improvements in retirement benefits as well as other income sources will result in the continued decline in pension caseload.

The 1989 budget request includes the full year impact of the 4.2 percent cost-of-living increase provided to Improved Law recipients in December 1987, as well as an estimated 4.2 percent cost-of-living adjustment which would be effective in December 1988. The cost-of-living adjustments to eligible pension recipients, by law, are based upon the actual change in the Consumer Price Index.

BURIAL BENEFITS AND MISCELLANEOUS ASSISTANCE

In 1989, an appropriation of $145 million is requested to support operations in the Burial Benefits and Miscellaneous Assistance appropriation.

Legislation is proposed authorizing the funding of the Veterans Mortgage Life Insurance [VMLI] program in the Veterans Insurance and Indemnities appropriation rather than the Burial Benefits and Miscellaneous Assistance appropriation. The funding of the Veterans Life Insurance program is more appropriate under the Veterans Insurance and Indemnities appropriation which funds other insurance programs. This legislation would also permit the VA to administer this program, with an expected savings in administrative costs of $100,000 each year.

READJUSTMENT BENEFITS

An appropriation of $598 million is requested in 1989 to operate the programs funded by the Readjustment Benefits appropriation. This funding level will provide benefits to 159,100 veterans training under the older G.I. Bill programs, as well as basic education benefits to 41,500 veterans under the new Montgomery G.I. Bill. The basic benefits under the new program will be enhanced with a $203 million transfer, primarily from the Department of Defense, which will be used to finance veterans' supplementary benefits and reservists' benefits, to be paid to an estimated 185,300 reservists. Education benefits under the older programs will also be provided to 38,300 dependents and vocational rehabilitation to 23,200 disabled veterans.

These programs are in a transition as eligibility for the new Montgomery G.I. Bill gradually replaces eligibility for the older programs. The trainee level under the older programs is estimated to be 38,000 fewer in 1989 than in 1988 but the trainee level under the new program is expected to be 71,000 higher.

LOAN GUARANTY

An appropriation of $658 million is requested in 1989 to support operations in the Loan Guaranty Revolving Fund. This appropriation request would fund nearly $3.7 billion in obligations estimated for 1989. It is projected that 232,600 loans totaling $17.9 billion will be guaranteed in 1989.

The 1989 budget proposes to continue the sale of the VA's portfolio loans. In 1988, $300 million of portfolio loans are planned for sale without recourse. The balance of the VA's portfolio loans, nearly $561 million, would also be sold without recourse in 1989.

Legislation is proposed to allow veterans to negotiate the interest rate on VA-guaranteed mortgages, providing maximum flexibility to veterans to structure the financing of their home purchases to best meet their needs.

The Administration is continuing to propose a Credit Reform initiative that explicitly recognizes the benefit, or grant, received by a borrower in obtaining a federal guaranty for repayment of the borrower's debt and thereby obtaining credit under more favorable terms than from the private sector. It is estimated that the subsidy, or grant, of $1.3 billion is associated with the guaranty of $17.9 billion in home loans in 1989. Enactment of these initiatives will have no impact on the veterans' ability to obtain guaranteed home loans from private lenders with no down payment.

GENERAL OPERATING EXPENSES

The budget request for General Operating Expenses [GOE] is $771.3 million and 17,494 average employment for the operations of the Department of Veterans Benefits, the Department of Memorial Affairs, and the various staff functions of our Central Office. This level will allow the VA to continue to provide quality service in a timely manner. The 1989 funding request reflects the full year impact of the 1988 costs related to a 2 percent pay raise for Federal personnel and the impact in fiscal year 1989 of a 2 percent pay raise in January 1989.

The GOE request also includes a proposal to remove restrictive fiscal 1988 appropriation's language that specifies funding and employment levels for the Department of Veterans Benefits, as well as restrictions on ADP expenditures. These changes are necessary for me to manage the resources of the VA most effectively.

The Department of Veterans Benefits [DVB] is requesting $503.3 million and 12,308 FTEE in 1989 which is a decrease of $5.2 million in new budget authority and 492 FTEE from our current estimate for 1988. Included in the DVB budget is $4.0 million for the first year of a two-year Loan Guaranty Property Management Pilot program. The test project will evaluate the feasibility and cost effectiveness of contracting out the acquisition, management and resale of a portion of the VA's property inventory. The request also includes funding for a toll-free telephone service, to enhance the quality and timeliness of the Department's insurance services. The toll-free service, to begin in 1988, will save 26 FTEE in 1989.

The Department of Memorial Affairs is requesting $47.4 million and 1,203 FTEE for the management of the national cemetery system for eligible veterans, active duty military personnel and their dependents. This is an increase of $299,000 from the 1988 level; employment is the same. It is expected that total interments will increase by 2.5 percent and graves maintained will increase by 2.7 percent. The funding level requested will support the expected increases in workload and provide for the accomplishment of maintenance and repair projects in order to maintain the national cemeteries as a fitting tribute and memorial to our Nation's veterans.

The 1989 budget request for the General Administration activity is $220.7 million, an increase of $13.4 million above 1988. Average employment will decrease by 70 FTEE in 1989. Funding is requested for a number of ADP initiatives, including continuation of the Personnel Accounting and Integrated Data System [PAID] Redesign, development of a Financial Management System, conversion of the existing telecommunications network to the new Integrated Data Communications Utility [IDCU], and continuation of the phased equipment replacement program at the Austin DPC.

Additionally, for the first time since 1986, we are requesting new budget authority to revitalize the program of Grants for the Construction of State Veterans Cemeteries. We are requesting $9 million to allow at least ten interested States to receive matching grants for the establishment, expansion, or improvement of State veterans cemeteries.

MEDICAL CARE

The Veterans Administration is requesting $10.3 billion for the Medical Care appropriation in 1989, an increase of $208 million over 1988 with an average employment level of 192,358 FTEE. This proposed budget will provide quality care for all veterans who are expected to apply for and need care, including over 1.2 million inpatients and over 23 million outpatient visits.

The budget provides for the expected effects of inflation, for the funding and staffing requirements associated with opening new facilities, for increased payroll costs, and for several new and expanded initiatives such as the Decentralized Hospital Computer Program [DHCP]; PAID; initiation of an Integrated Supply Management System [ISMS]; enhancement of the Medical District Initiated Peer Review Organization [MEDIPRO] and increased funding support for the State and community nursing home programs, both of which are less costly than VA nursing homes. Legislation is also being proposed to expand the authority to allow tuition reimbursements to nurses for nursing degree-related courses and to increase the State home care per diem rates by 22.9 percent, to bring the VA share of these costs back to the 25 percent level that has been an historical benchmark.

Within the additional resources provided by the Congress and approved by the President in the 1988 appropriation, the VA can continue the Homeless Veterans Treatment Program established in 1987 by Congress (P.L. 100–6) and make additional resources available to medical centers for the treatment of AIDS patients.

MEDICAL AND PROSTHETIC RESEARCH

The 1989 request for Medical and Prosthetic Research is $204.2 million and 4,407 FTEE, an increase of $11.3 million and a decrease of 110 FTEE.

Funding is being requested for medical research in the areas of heart disease, schizophrenia, spinal cord injury, diabetes, cancer, aging, alcoholism, and a significant increase for AIDS as well as support for related problems of Vietnam-era veterans, former prisoners of war and female veterans.

Funding is also being requested to continue support for rehabilitation research in the priority areas of prosthetics/amputations, spinal cord injury, and sensory aids. Health services research would also be continued in management and service initiated areas.

MEDICAL ADMINISTRATIVE AND MISCELLANEOUS OPERATING EXPENSES [MAMOE]

The 1989 request for this program is $47.9 million, an increase of $1.3 million over 1988. Staffing would be held to the 1988 level of 595 FTEE. The Health Professional Scholarship Program would be funded at the same level as 1988, adjusted for inflation. Resources are also included for the establishment of an AIDS Program Office and for additional support to monitor activations projects.

GRANTS FOR CONSTRUCTION OF STATE EXTENDED CARE FACILITIES

The 1989 request for this program is $42 million, an increase of $1.7 million over 1988. This funding provides for 732 new nursing home beds, 22 domiciliary beds, and nine nursing home renovation projects. These funds will allow the VA to continue shifting the mix of VA-sponsored care towards cost effective state nursing home alternatives, while expanding the total amount of nursing care available to veterans.

CONSTRUCTION

The 1989 request for the construction appropriations is $500.6 million. Of this amount, $367.8 million is for major projects at medical centers, regional offices and national cemeteries.

Major construction funds are proposed for fourteen sites, including four replacement and modernization projects—two requests for construction funds for VA facilities at Atlanta, GA and Pittsburgh (Aspinwall Division), PA, and two requests for design funds in Indianapolis, IN and Newington, CT—as well as a nursing home care project at Tampa, FL. The budget request also includes funds for a domiciliary at Mountain Home, TN and for large clinical improvements projects at Beckley, WV, Nashville, TN, Perry Point, MD and San Antonio, TX.

Funding is also included for additional gravesite development at the Calverton National Cemetery and the relocation of the regional office at Montgomery, AL to the Medical Center grounds.

For minor construction, the 1989 request of $123.9 million represents an increase of $8 million over the FY 1988 funding level. The FY 1989 budget proposes that the ceiling for minor construction projects be increased from $2 to $3 million. Minor construction includes a General Administration limitation of $42.7 million.

In FY 1989, $9 million in new budget authority is being requested for the Parking Garage Revolving Fund to be used for the new parking garage that is planned for construction in connection with the Atlanta, Georgia clinical addition project.

CLOSING

Mr. Chairman, in closing, I am committed to the accomplishment of the VA's mission to provide veterans the care, support and recognition they have earned in service to this Nation. Our budget request reflects both this commitment to meeting the needs of our veterans as well as a concern for fiscal restraint. I appreciate the continued support and guidance of this Committee. This concludes my introductory statement. My staff and I will be pleased to discuss the details of this request and answer your questions and those of the Committee Members.

PREPARED STATEMENT OF JOHN A. GRONVALL, M.D., CHIEF MEDICAL DIRECTOR, DEPARTMENT OF MEDICINE AND SURGERY, VETERANS ADMINISTRATION

Mr. Chairman and members of the committee, I am pleased to be with you today to review the 1989 budget request for the medical programs of the Veterans Administration. Despite the overall austerity of the federal budget, we have a medical request that allows the VA to continue providing quality health care to eligible veteran beneficiaries. The medical care request for 1989 is $10.3 billion and 192,358 jurisdictional average employment, an increase of $208 million above the 1988 appropriated level. This request will support an estimated 1.2 million patients treated and 23.1 million outpatient visits.

The 1989 budget request includes program and management initiatives designed to ensure that resources are available to provide appropriate care to eligible veterans. These initiatives take advantage of automated data processing technology and anticipated productivity improvements; include continued expansion of the decentralized hospital computer program; implementation of an improved supply management system; centralized control of the civilian health and medical program of the Veterans Administration; and improvements in automated payroll and accounting systems.

Programmatic initiatives include continuation of planned conversions of hospital beds to nursing beds; an expansion of the Medical District Initiative Peer Review Organization [MEDIPRO]; and replacement and improvement of the agency's data transmission system with an integrated data communication utility [IDCU] system.

The Veterans Administration's extended care programs encompass a broad spectrum of care. One of the areas where the increase in the average age of veterans will have an impact over the next few years is in the demand for nursing home beds. In addition to the requested funds for construction of a new nursing home at Tampa, Fla., the 1989 budget proposes that $13 million and 345 FTEE be transferred from the hospital to the nursing home care activity for the conversion of 289 beds to nursing home care.

The 1989 budget provides for increases of $96 million and 1,882 FTEE for facility activations, including those for new nursing home beds. Activated projects will increase the quality of patient care through improved or expanded operational capabilities. Many projects include additional, or an expansion of, sophisticated specialized services and new high-technology treatment modalities. These projects may involve construction of new space. As a result of these activations, the VA is expected to treat 7,802 additional inpatients and 211,000 additional outpatients, the resources for which are included in the budget.

The 1989 request for medical administration and miscellaneous expenses [MAMOE] is $47.9 million and 595 FTEE, an increase of $1.3 million over 1988. This level will continue support for the health professional scholarship program at 1988 levels and allow for the establishment of an AIDS program office to help assure that the VA best uses its clinical, research, and educational capabilities to combat this decrease. Facility activation requirements would be given more scrutiny with a small addition to staff.

In 1989, 4,407 FTEE and $204.2 million are requested for Veterans Administration research programs. This level includes $2,750,000 for the continuing requirements of the Centers for Disease Control [CDC] agent orange epidemiology study and represents an increase of $11.3 million over 1988 after excluding the one-time $15 million reimbursement from the Department of Defense. These funds will support projects in medical, health services, and rehabilitation research, as well as ongoing and recently approved DOD/VA collaborative studies to be funded for the first time in fiscal year 1988; specially solicited AIDS research programs; and three newly established AIDS research centers.

The $42 million requested for the grants for construction of state extended care facilities in 1989 will continue the VA's commitment to expanding the state veterans home program, thereby providing additional facilities for veterans' nursing home and domiciliary care. The increase will provide 732 additional nursing home beds and 22 domiciliary beds as well as nine nonbed-related renovation projects in five states. To further encourage states to augment these programs, we are proposing legislation to increase per diem rates paid to states for eligible veterans' care in state homes. If enacted, this initiative will cost approximately $19 million in fiscal year 1989.

We are also requesting authority to initiate a $5 million program of tuition reimbursements for nurses engaged in nursing-degree-related programs in order to help attract and retain nurses in areas where nurse recruitment is particularly challenging. In addition, we are requesting $500,000 for grants to the Republic of the Philippines in 1989. This grant supports the maintenance and upkeep of the Veterans Memorial Medical Center physical plant and facilities

This concludes my opening statement, Mr. Chairman. I will be pleased to answer any questions you or members of the committee may have.

PREPARED STATEMENT OF RAYMOND J. VOGEL, CHIEF BENEFITS DIRECTOR, VETERANS ADMINISTRATION

Mr. Chairman and members of the subcommittee, I am pleased to present the Department of Veterans Benefits fiscal year 1989 appropriations request. The Department administers an integrated program of veterans benefits activities. The 1989 request for $16.5 billion represents 59 percent of the VA's approximately $28 billion in appropriation requirements.

Funds for our compensation, pension, and burial programs are the largest segment of the agency's budget. Our 1989 request, a total of nearly $14.8 billion in appropriations, will provide an average monthly compensation benefit of $357 for more than 2.5 million veterans and survivors; assist over 1.1 million veterans and survivors with a monthly pension income of $278; and allow us to continue to maintain a comprehensive burial assistance program.

Legislation will be submitted to: index future compensation and clothing allowance benefit increases to the annual change in the Consumer Price Index; authorize the funding of the veterans mortgage protection life insurance program from the veterans insurance and indemnities appropriation rather than the compensation and pensions appropriation; and change the eligibility for a burial plot allowance to the same criteria used for the basic ($300) burial allowance, effective October 1, 1989. The budget anticipates a cost-of-living increase of 4.2 percent, effective December 1, 1988, at a cost of nearly $361 million.

Our request for the readjustment benefits appropriation is $597.6 million and will provide educational assistance to 197,400 veterans and dependents; 23,200 veterans in vocational rehabilitation training; and 41,500 veterans and servicepersons training under the new GI bill. In addition, $203 million will be transferred into this account from the Department of Defense and the Department of Transportation for benefit payments to 185,300 reservists and supplemental benefits to 25,900 servicepersons and 15,600 veterans training under the all-volunteer force educational assistance programs. Another 1,090 veterans will be assisted in the purchase of specially adapted homes and automobiles.

The loan guaranty program will require $685 million to fund program operations consisting primarily of property acquisition costs and claim payments. These two items, equalling $2.4 billion, comprise nearly 66 percent of the program's obligations.

In recognition of the favorable financial terms federal credit programs provide borrowers, this budget also requests subsidy (grant) equivalent appropriations of more than $1.3 billion for the loan guaranty, direct loan, and vocational rehabilitation revolving fund loan programs.

The Department of Veterans Benefits [DVB] is requesting $503.3 million and 12,308 FTEE in 1989, which is a decrease of $5.2 million in new budget authority and 492 FTEE from our current estimate for 1988. Included in the DVB budget is $4 million for the first year of a 2-year loan guaranty property management pilot program. The test project will evaluate the feasibility and cost effectiveness of contracting out the acquisition, management, and resale of a portion of the VA's property inventory. The request also includes funding for a toll-free telephone service to enhance the quality and timeliness of the Department's insurance services. The toll-free service, to begin in 1988, will save 26 FTEE in 1989.

Mr. Chairman, this concludes my statement. We will be glad to discuss our budget with the subcommittee.

PREPARED STATEMENT OF WILFRED L. EBEL, CHIEF MEMORIAL AFFAIRS DIRECTOR, VETERANS ADMINISTRATION

I am pleased to present the Department of Memorial Affairs' fiscal year 1989 budget request. The Department of Memorial Affairs is responsible for three Veterans Administration missions: first, the operation and maintenance of the Veterans Administration national cemetery system; second, the procurement and shipment to destination of headstones and markers furnished upon application for veterans' graves in both national and private cemeteries; and third, the grant program for aid to states in establishing, expanding, or improving state veterans cemeteries.

The management structure within the Department of Memorial Affairs to supervise and control our assigned missions consists of a central office staff and three field area offices, presently located in Philadelphia, Atlanta, and Denver.

A total of 144 cemeterial installations are now included in the national cemetery system, of which 112 are national cemeteries and 32 are miscellaneous burial plots and monument sites. The 112 national cemeteries include the West Virginia National Cemetery in Pruntytown, W. Va., which opened for interments in July 1987, the new regional cemetery at Fort Mitchell, Ala., which opened in spring 1987, and the Florida National Cemetery, located at the Withlacoochee State Forest, scheduled to open on Memorial Day 1988.

Under the general operating expenses appropriation, we are requesting $47,364,000 in budget authority for cemeterial operations and maintenance. Some 69 percent, or $32,833,000, of this is for salaries and other related benefits and will fund an average employment of 1,203. The other 31 percent, or $14,531,000, will be used for equipment, supplies, fuel, contracts, communications, travel, printing, and maintenance and repair projects.

During 1989 we expect to accomplish 56,400 interments and maintain 1,775,300 occupied gravesites. In addition, our workload includes the processing of 317,000 applications for headstones and markers.

The 1,203 average employment we plan in 1989 includes 406 general schedule and 797 wage grade employees. The 1,203 employment request represents a net increase of 16 FTEE from the level of 1,187 identified in the President's fiscal year 1989 budget, and no change from the current fiscal year 1988 level.

DMA's 1989 request for construction funds totals $18,800,000. The majority of this total ($12,500,000) is for a 90,000-gravesite development project at the Calverton, N.Y., National Cemetery. Also included are advance planning funds totaling $550,000 for a project at Riverside National Cemetery and for an historic/cultural resource inventory and evaluation of the cemetery lodges. A total of $5,750,000 is included in construction minor funds to provide needed cemetery facility improvements.

Fiscal year 1989 will be our 10th year of operation of the state cemetery grant program. This program helps states provide an alternative burial option for veterans who reside in areas not currently served by a national cemetery. The $9 million in budget authority is requested to enable at least 10 states to participate in this important program.

That briefly summarizes the 1989 budget request for the Department of Memorial Affairs. I will be glad to answer any questions you may have.

LOAN GUARANTY REVOLVING FUND

Senator PROXMIRE. General, you are requesting $658 million for the loan guaranty revolving fund. Last year, we gave you $389 million. I understand the loan guaranty revolving fund is in trouble and is estimated to deplete its reserve this month, in March.

Do you know specifically when the revolving fund will be out of money?

General TURNAGE. I think it will be about the middle of this month, this next week, sir.

Senator PROXMIRE. Why have we not seen the supplemental request?

General TURNAGE. The supplemental request has been submitted to the Office of Management and Budget. We have told them of the criticality of the issue. We have asked for priority handling. We have been assured that we would receive such, and we expect action on it very shortly.

Senator PROXMIRE. Can you give us a date when we are likely to see it?

General TURNAGE. We do not have a date, sir.

Senator PROXMIRE. We understand the supplemental for fiscal 1988 will be for $526 million. That, plus your original 1988 appropriation, totals $916 million. That means that if the supplemental passes, your request for fiscal 1989 would actually be a decrease of $558 million from the current year. Why do you think demands on the fund will slacken in 1989?

Mr. VOGEL. Mr. Chairman, I am John Vogel, the Chief Benefits Director. We expect that in this next year two initiatives will enable us to sell more properties than we have in the past. The stream of delinquencies and foreclosures remains high. We anticipate some improvement in that arena in 1989. We will have sales of loans without recourse this coming June, which will provide funds to the program, and of course, revenue is provided from the funding fee of 1 percent. We believe that we will be able to provide sufficient funds for the loan guaranty revolving fund to be able to make it with that amount.

COMPENSATION AND PENSIONS

Senator PROXMIRE. General, you are requesting $14.6 billion for compensation and pensions. I understand you are currently experiencing a deficiency of $492 million in that account and will be submitting a supplemental request. When will that deficiency begin to have a direct effect on veterans?

Mr. VOGEL. The effect would be felt very late in the fiscal year.

Senator PROXMIRE. That would be in the late summer, early fall, right?

Mr. VOGEL. That is right, Mr. Chairman.

Senator PROXMIRE. Your current compensation and pension estimates for 1988 is $11.1 billion. That is an increase of $500 million over your original 1988 budget request. What accounts for that $500 million increase?

Mr. VOGEL. The increase is largely due to the 4.2-percent cost-of-living adjustment effective December 1 and an additional amount for a revision in the manner in which we assess hearing impairment. The largest portion, Mr. Chairman, is the cost-of-living adjustment.

GENERAL OPERATING EXPENSES FTEE

Senator PROXMIRE. General, I understand you are facing a deficiency in your 1988 general operating fund budget that could result in the furlough of employees. How many personnel would you have to furlough to make up the deficiency?

Mr. COLE. Sir, Gary Cole, Budget Service. The deficiency would be largely corrected by the change in the modernization language, which would permit the use of $26 million to absorb cuts in 1988. There would be no supplemental anticipated.

Senator PROXMIRE. Suppose you did not get that; how many would you have to furlough?

Mr. COLE. I really do not have a number for you, sir. We can provide it for the record.

[The information follows:]

NUMBER OF FURLOUGH DAYS REQUIRED

The modernization ADP language, which is presently fenced, totals $26,700,000. If this funding cannot be utilized to absorb 1989 reductions, it would result in the need to furlough all DVB employees up to a total of 18 work-days. This is based on an average daily payroll cost of $1,450,000 for all Department of Veterans Benefits employees.

Senator PROXMIRE. Can you tell us when you would have to furlough?

Mr. COLE. I would imagine starting the third quarter.

Senator PROXMIRE. I understand you would like us to allow you to take the $27.6 million that was earmarked in fiscal 1988 for a computer modernization program in the Department of Veterans Benefits and allow you to use it to cover the deficiency. If we free up the $26.7 million, will that take care of your problem?

Mr. COLE. Yes, sir; we could essentially take care of the problem at the budget request level of 12,800 FTE. That would take care of it.

READJUSTMENT BENEFITS

Senator PROXMIRE. You are requesting $597 million for readjustment benefits, a decrease of $28 million, roughly, in current year funding. Page 27–11 of your budget justification indicates anticipated goals of the readjustment benefits accounts due to the new Montgomery bill, Public Law 100–48. Can you give me a general idea of the amount of growth you anticipate over the program in the next 5 years and provide details for the record?

Mr. VOGEL. Mr. Chairman, we would be pleased to provide details for the record on that. The traditional GI bill, known as the chapter 34 program, is falling off. Just at about the time it begins to wane, the chapter 106, which is the Selected Reserve Montgomery GI bill, and the chapter 30, which is the Active Duty GI bill, will have a large increase in trainees. When one goes down, the other goes up. I would be pleased to provide the details for the record.

Senator PROXMIRE. Can you give me a rough idea of what the growth is in percentage terms?

Mr. VOGEL. The chapter 30 and 106 programs are relatively small now. The chapter 30 is the active duty program. The number of current trainees is yet under 2,000. But we have a participation rate in the military services that is around 80 percent. Those individuals are now coming out of the service.

I do not have the chart in front of me on the experience on that program, but we anticipate 19,800 trainees this year in the chapter 30 program, running up to 41,500 in fiscal year 1989, 104,700 in 1990, and 165,300 in 1991. Coupled with the chapter 106 program, the number currently in training is about 40,000 trainees. We would, in 1988, expect about a half a million trainees in all VA education programs. I can provide the projected growth of that program. We may have to adjust that up, since I eluded to a very large participation rate in the active forces a moment ago.

[The information follows:]

MONTGOMERY GI BILL CASELOAD GROWTH

The following charts highlight the expected growth of the Montgomery GI bill through 1993:

Fiscal year	Caseload	Percent change from previous year
CHAPTER 30—ACTIVE DUTY		
1988	19,400	
1989	41,500	+114
1990	104,700	+152
1991	165,300	+56
1992	209,100	+28
1993	242,000	+16
CHAPTER 106—SELECTED RESERVE		
1988	136,000	
1989	185,300	+36
1990	213,500	+15
1991	223,900	+5
1992	174,900	-22
1993	181,800	+4

MEDICAL CARE

Senator PROXMIRE. You are requesting a total budget of $10.3 billion for medical care in fiscal year 1989, an increase of $207.9 million over your current level of funding. That request assumes a reduction of 1,782 full-time equivalent positions. As you know, the Congress has refused to go along with these position reductions in the past. How much would we have to add to your budget to restore those positions?

Dr. GRONVALL. Mr. Chairman, I believe the figure is $58.8 million.

Senator PROXMIRE. How many of your 194,000 full-time equivalents are currently filled?

Dr. GRONVALL. At the present time our staffing is almost precisely on target of 194,140, the number authorized by the current appropriation.

LENGTH OF STAY

Senator PROXMIRE. Page 6–36 of your justifications indicates that the length of stay in medical care facilities has consistently decreased. In fiscal 1987 the length of stay was 25.2 days, going down to 25 days in fiscal 1988. The length of stay is estimated at 24.6 days for fiscal 1989. I note that you initially overestimated length of stay in 1988 by 1½ days. Your past estimates have also been on the high side. Why is this so? Why do you consistently overestimate?

Dr. GRONVALL. When we project ahead for length of stay, the projection is based on a number of assumptions and factors, some shorten the length of stay; others lengthen the length of stay. For example, one of the common reasons that length of stay does not shorten is that a number of procedures which, in the past, have been done on an inpatient basis are now being done on an outpatient basis. Therefore, a number of very short hospital stays are eliminated entirely from hospital care workload, and that, on balance, tends to lengthen the average length of stay for the patients that do need to be hospitalized.

We have worked particularly hard in the past couple of years to try to accelerate the number of procedures, tests, and treatments done on an outpatient basis that formerly required hospital care.

STAFFING RATIO

Senator PROXMIRE. Now, as I understand it, reductions in the average length of stay have more than offset increased admissions to VA hospitals. As a result, the number of staff per patient is projected to increase from 2.48 in 1987 to an estimated 2.52 in 1989.

If we provide funding for the 1,728 FTE's mentioned earlier, would it measurably affect your staffing ratio?

Dr. GRONVALL. It would have an effect on the staffing ratio. I want to go back, though, to the assumption on which your question is built, because we have not projected a reduction in the number of patients that will be treated in hospitals. We have actually projected a slight increase in the number of patients that we will hospitalize and treat in our hospitals.

Senator PROXMIRE. I was not projecting anything. Let me read my question again. Reductions in average length of stay have, in the past, more than offset increased admissions to VA hospitals. As a result, the number of staff per patient is projected to increase from 2.48 in 1987 to an estimated 2.52. See, we base that on the experience to date and just project that experience.

Dr. GRONVALL. What I am reacting to is the assumption that a shortened length of stay has offset increases in the number of admissions, and I am not prepared to agree with that for the reason that as additional patients are hospitalized, each patient has to go through the full process of diagnosis, tests, and treatment at the time of discharge. As the length of stay is shortened, that accelerates the pace of staff investment and consumption of resources for each patient.

So the shortened length of stay does not, in fact, lead to a significant reduction in the need for staff in a hospital when the number of patients being hospitalized is increasing.

Senator PROXMIRE. Let me approach it from another standpoint, then. Can you give us a rough idea of how staffing ratios in American hospitals generally compare with your projected 1989 staffing ratio of 2.52 staff to each patient?

Dr. GRONVALL. Yes; I can. Our staffing ratio would be below the general experience of staff-to-patient ratios in community hospitals or university hospitals of the nation.

Support for what I have just said is best reflected in a series of staffing guidelines that we have developed and utilized in our medical centers. Those staffing guidelines have been developed within the VA but have had scrutiny and then endorsement by the Office of Management and Budget, so they reflect the best possible cut we can take at defining an appropriate range of staff.

Senator PROXMIRE. For the record, will you give us the comparison, the precise comparison with the staff per patient in nonveterans hospitals?

Dr. GRONVALL. We would be pleased to.

[The information follows:]

NON-VA HOSPITAL STAFFING RATIO COMPARISON

The staff-to-patient ratio in private sector hospitals is 4.13 based on 1986 American Hospital Association data. The staffing ratio estimate included in the 1988 congressional budget for VA hospitals is 2.50 in 1988 and 2.52 in 1989.

STAFFING RATIO AND QUALITY OF CARE

Senator PROXMIRE. Back in 1978, the staffing ratio for VA hospitals was 1.99 staff per 100 patients, substantially less than it is today. That means that over a 10-year period, staff per patient have increased by about 25 percent. Do we have any concrete indicators that this is a result of improved patient care?

Dr. GRONVALL. Again, I would demur from the basic assumption in the question, but the precise answer is that we do not have a set of concrete indicators.

Senator PROXMIRE. What is the basic assumption that you demur from? Be precise. I am not sure. Are my figures wrong? I say back in 1978, the staffing ratio for VA hospitals was 1.99 staff per patient. That means that over a 10-year period, the staff per patient has increased by about 25 percent. Is that right or wrong?

Dr. GRONVALL. That calculation is based on staff per census, and my earlier comment had to do with the fact that as the length of stay shortens from one year to the next, maintenance of the exact same staff per census would, in fact, result in a decrease of effective staffing ratio, if the length of stay shortens and more patients are admitted to the hospital during the year.

OUTPATIENT STAFFING

Senator PROXMIRE. You may be completely right. I think the only way we can tel!, though, is to get the figures also on your outpatient treatment so that we have some comparison there, some basis for deciding whether you are overstaffed or not.

Dr. GRONVALL. We would be pleased to submit that, and the number of outpatient visits that we have provided has continued to increase. And again, we project a modest increase in the 1989 budget. We would be pleased to submit the detailed staffing data for those years, and the workload data, subdivided by hospital inpatients treated, by outpatient visits, and then by nursing home patients treated, as well as domiciliary patients, because those patients are also cared for out of the total staff available to the Department.

[The information follows:]

MEDICAL CARE WORKLOAD MEASUREMENTS

The following tables provide average daily patient census and staffing ratios (FTEE per census) for VA hospital, VA nursing and VA domiciliary inpatient activities and outpatient visits and FTEE per 1,000 visits for the last 10 fiscal years (1978-87 actuals) plus the estimates for 1988 and 1989.

Fiscal year	Average daily census			Outpatient visits (000)
	VA hospital	VA nursing	VA doms	
1978	73,008	7,480	8,721	15,070
1979	69,821	7,760	8,448	15,053
1980	68,109	7,933	7,894	15,752
1981	66,376	8,145	7,353	15,828
1982	64,894	8,486	7,087	16,024
1983	64,992	8,849	6,852	16,627
1984	63,094	9,060	6,236	16,935
1985	59,310	9,556	5,979	17,790
1986	56,940	10,482	5,767	18,458
1987 [1]	53,865	10,945	5,837	20,093
1988 est.[1]	51,995	11,748	6,496	21,040
1989 est.[1]	50,481	12,681	6,496	21,251

Fiscal year	Staffing ratios (FTEE/Census)			FTEE Per 1,000 OP visits
	VA hospital	VA nursing	VA doms	
1978	1.99	1.08	0.35	1.53
1979	2.04	1.05	.35	1.52
1980	2.11	1.09	.36	1.54
1981	2.13	1.11	.37	1.78
1982	2.18	1.13	.37	1.87
1983	2.19	1.15	.38	1.85
1984	2.25	1.24	.38	1.72
1985	2.37	1.27	.40	1.75
1986	2.42	1.26	.40	1.71
1987 [1]	2.48	1.26	.41	1.69
1988 est.[1]	2.50	1.28	.41	1.68
1989 est.[1]	2.52	1.28	.41	1.66

[1] Hospital and outpatient workloads have been adjusted to reflect the reclassification of 1-day dialysis from a 1-day hospital stay to an outpatient visit.

Senator PROXMIRE. I am going to ask Mr. van der Voort. Go ahead, Mr. van der Voort.

Mr. VAN DER VOORT. I am curious. If you feel that the staffing ratio per patient is not an accurate indicator, what is an accurate indicator?

Dr. GRONVALL. I believe that staffing per census is a useful indicator, but staffing per 100 patients treated is a better predictor of resource consumption.

Mr. VAN DER VOORT. I understand that. I am just wondering if you have any formula which quantifies that problem.

Dr. GRONVALL. We have very elaborate information that is reflected in our staffing guideline reports that have to do with that issue, as well.

OPTIMUM STAFFING RATIO

Senator PROXMIRE. Let me ask you this. If we had unlimited funds, which we don't, what would be the optimum staffing ratio?

Dr. GRONVALL. I am not prepared to give a figure off the top of my head. I think we could respond to that for the record. If your assumption is given the present workload of inpatients, outpatients, nursing home or domiciliary being treated by total staff, what would be our best judgment of an appropriate staffing level. We can provide that for the record.

Senator PROXMIRE. Fine. I wish you would.

[The information follows:]

PATIENTS TREATED STAFFING RATIO

There are two staffing ratios presented in the congressional budget: FTEE per average daily census and FTEE per 1,000 patients treated. The traditional staffing ratio which uses census, measures the employment required to maintain occupied beds. This ratio, however, ignores the patient turnover activity (or pace of care) within the beds. If nothing else changes and length of stay shortens, more staff per census is required since patients move through diagnosis, tests, and treatment in a shorter period of time. For example, 20 veterans admitted, treated, and discharged from one bed during the course of a year costs more than one veteran occupying a similar bed for the entire year; however, one census is generated in both instances.

Patients treated provides a better measure of resource consumption and staff productivity than census. The 25-percent increase in the census staffing ratio (since 1978) could give an impression that medical care is overstaffed when a large portion of the increase is the result of declining census. However, in the same time period the patients treated staffing ratio decreased 14 percent which indicates increasing turnover and more patients treated per FTEE (productivity).

NURSING SHORTAGE

Senator PROXMIRE. Senator Grassley?

Senator GRASSLEY. I thank you, Mr. Chairman. I didn't hear your presentation, so if you covered any of the questions I ask in your oral presentation as opposed to your written presentation, I would appreciate your telling me and then I will just review the record. I first want to bring up the question about nursing shortages, because you know, private sector hospitals are having nursing shortages; we hear it particularly in rural areas. So we have been hearing a great deal about it also in the VA medical system. I presume that the problem is not one that just affects the Veterans Administration.

Has this problem for you abated at all over the recent year?

General TURNAGE. We do not think it has abated, sir. I made reference to the nursing situation in the opening statement, but not specifically to address what you are interested in.

The fact is, across the board in the Veterans Administration, in most of the country a nursing shortage is not that critical. We have some very critical shortages, however, in the urban areas. We have special programs now to try to overcome that. For example, we have programs which would provide training for nurses in return for their obligation to serve us for a minimum period of time in the VA system. But from the standpoint of specifics, I think that Dr. Gronvall would want to address that in greater detail.

Senator GRASSLEY. Before you address it, just let me ask you if the VA experiences any special problems that makes this recruitment and retention of nurses particularly difficult?

Dr. GRONVALL. Yes, Senator Grassley; I believe we do. One of the special problems has to do with the fact that the present national nursing shortage is one in which it is a buyer's market. Since the total pool of available nurses can't be expanded in the short run, and because demand exceeds the number of nurses available, salaries and other fringe benefits are being bid up by each hospital attempting to maintain its own staff.

One of the things that I think the Veterans Administration suffers from in that context is that since we are a very large federally operated system, of necessity, we move more slowly than a single individual community hospital, and so an individual community hospital can raise its salary rates or adopt other incentives to make employment more attractive, and they can do it in a very short time by recommending to their board, getting a decision, and implementing it the next day.

In the federal system, because of legislative requirements, special review requirements, and the need for central decisionmaking, the response time is slower, and I think that imposes a special problem on the VA. We are responding by working to accelerate our approval process for special pay rates to the greatest extent possible, and at this time have a large number of special pay rates in effect.

RECRUITMENT EFFORTS

Senator GRASSLEY. OK. How, then, what you just suggested, plus the tuition program that was suggested, how much has that had an impact, do you think, to help solve or abate the nursing shortage problem, or is it just keeping you steady with the game?

Dr. GRONVALL. The steps that we have taken have been of great assistance to us in the VA, but the collective effort has been just sufficient to barely hold our own, particularly with some of our hospitals that are in very large cities.

On an aggregate basis across the country, I track the exact number of nurses, subdivided by RN's, and then by LPN's and nursing assistants. Every 2 weeks I get a detailed report of the number we have actually employed. While we have declined slightly in the past year, we have been able to essentially hold our own in most of our medical centers by utilizing special pay rates, special programs, and special recruitment efforts.

Senator GRASSLEY. Just holding your own?

Dr. GRONVALL. Yes.

OTHER CATEGORIES OF EMPLOYEE SHORTAGE

Senator GRASSLEY. Is the category of nurses the only one of the health professionals that the Veterans Administration is finding difficult to recruit in sufficient numbers?

Dr. GRONVALL. No; it is the most severe problem.

Senator GRASSLEY. What are other categories?

Dr. GRONVALL. There are a number of other categories—physical therapists, in particular. Pharmacists are in short supply in many parts of the country, and many other professions present localized problems in individual parts of the country.

Senator GRASSLEY. What sort of approaches are you taking to help with those shortages?

Dr. GRONVALL. Again, we have authority for special pay agreements for those other categories. We have enacted some additional special things during the past year as we have restarted our scholarship program. We are now seeking legislative authority to expand the scholarship program so that physical therapists and a number of other professional disciplines will be eligible for scholarship assistance. So we have focused on the other disciplines.

FTEE REDUCTIONS

Senator GRASSLEY. OK. Now, discussing the problems that you have had with specialties, then, I also took notice of the fact that in your budget submission plan you would reduce about 1,782 staff-years over a period of this budget. How are you going to accomplish this, and if you do accomplish that, what effect will that have on what you describe here as an already critical situation in some of these special categories of health personnel? Are you talking about no relationship whatsoever?

Dr. GRONVALL. Well, I would answer that, really, in two ways: If the actual appropriation that we receive in 1989 is the amount requested in the President's budget, we would attempt, to the greatest extent possible, to make those staff reductions in categories other than people directly providing patient care. Said in a different way, we would try to protect our direct health care staff to the greatest extent possible.

If your question seeks a detailed, in a sense, plan or strategy as to how we would actually accomplish that staff reduction, I would say that we do not have such a plan, and the reason for that is that the budget, of course, as General Turnage commented in his opening statement, was controlled from the outset by the budget summit agreement, so it was limited to a 2-percent increase, and these changes reflect adjustments within that.

Senator GRASSLEY. But, if your answer is as stated and going to hold for the period of the budget request just now made, at least you satisfied me that none of these 1,890 reductions, or whatever the number is, it is not going to come out of these areas where you already are having problems of shortages, right?

Dr. GRONVALL. I would be unwilling to categorically say that none of that reduction would be taken out of nursing personnel and physical therapist personnel. The way we actually manage the staffing level is to make a budget allocation to each medical center and they use their best local judgment. Therefore, it is conceivable that there could be a few individual medical centers where part of the staffing reduction would be taken out of such staff.

AGING VETERAN

Senator GRASSLEY. I would like to go to a question about the criteria for veterans' long-term care services used by the VA, and I think that we are all well aware of the fact that most World War II veterans, of course, are getting at that age where this is going to keep an increasing load on the VA and thus presents the Veterans Administration with a different set of problems than is characteristic of a younger veterans population. I think that most of us recognize that the VA has been doing a good job in attempting to adjust to the changing age profiles of the veterans' population.

I want to tell you that I honestly believe that, although I think you have a very difficult, almost insurmountable job still ahead of you in that regard.

Dr. GRONVALL. Thank you, sir.

ELIGIBILITY FOR LONG-TERM CARE

Senator GRASSLEY. I wonder if you could clarify for me how the eligibility requirement we established in Public Law 99–272 interacts with the long-term care needs of veterans. Is it the case, first, that provision of long-term care services, by which I am talking about nursing home services and home-based care for chronically ill, would be furnished on a space-available basis but that it is not furnished as a matter of entitlement?

Dr. GRONVALL. Yes, sir; and your question was framed in relation to the recent change in eligibility statute. I believe the simplest answer is to say that the law that was adopted and went into effect in the summer of 1986 really did not directly alter eligibilities or priorities for long-term care. It dealt only with eligibility for hospital care for acute medical conditions.

Senator GRASSLEY. Then would it be correct to assume that we will have many veterans, even in categories A and B, who may need long-term care services but who will not get them unless there is a fairly major expansion of VA resources going into this area?

Dr. GRONVALL. The current demand for long-term care, particularly nursing home care, does exceed our capability of meeting the demand, particularly in certain parts of the country, where the growth of the veteran population has been rapid.

Senator GRASSLEY. Thank you, Mr. Chairman.

Senator PROXMIRE. Senator Nickles?

OUTLAY INCREASE

Senator NICKLES. Mr. Chairman, thank you very much, and General Turnage and the rest of the panel. I have read the statements, and I was trying to look at some of the numbers. There will be an increase in outlays of $865 million?

General TURNAGE. Yes, sir.

Senator NICKLES. From 1988 to 1989?

General TURNAGE. Yes, sir.

Senator NICKLES. That is an increase of, what, about 2 or 3 percent?

General TURNAGE. I think it is closer to 2 percent, Senator Nickles.

Senator NICKLES. But you are looking at a reduction in FTE's of about 1 percent?

General TURNAGE. Yes, sir.

Senator NICKLES. And that is caused because of what, raises and other cost demands on the system?

General TURNAGE. Senator Nickles, that has been a contentious issue for a number of years, inasmuch as the difference of view of the administration, as opposed to the mandates coming out of the Congress as to what constitutes a floor for medical care.

The position that I have taken on this relates to some of the other statistics associated with it. It seems to me that, if you stop and analyze what has happened to medical care, you have a number of reductions in the system overall. You have an average daily census reduction; you have a bed occupancy rate reduction; you have a reduction in the number of patients discharged; you have an average number of operating beds that have been reduced; and you have had a daily census reduction in domiciliary care.

But I think, more importantly, after having said that, the fact is in the last 7 or 8 years we spent $1.4 billion in new sophisticated state-of-the-art medical equipment in the system.

In addition to that, we have spent, through 1988, approaching $500 million for computerization of the system, which, it seems to me, then, makes it not difficult to defend a 1-percent productivity increase in the system overall. And from my perspective, in visiting the hospitals, and I guess I have seen as many as anyone here, I get the impression that we are doing quite well. The key issue here, and I think the chairman touched on this earlier, is the fact that after having had the eligibility standards very definitively prescribed by the previous law which went into effect on July 1, 1986, we know of no individual who has been eligible under the criteria who is not being served and being served with quality care.

PATIENT WAITING

Senator NICKLES. Let me ask you a question. You mentioned visiting a lot of hospitals, and I am sure you have. I have only visited one in my state. Maybe I should visit other ones, but I have always been concerned about waiting lines. I can hardly recall visiting when there hasn't been some—I don't want to use the word significant, maybe it is not significant, if you consider the total population served and the demands on the system, but I have this conception that in all of the VA medical centers that there is a fairly significant waiting line.

Is that accurate or not?

General TURNAGE. Please let me give you a lay perception of that, and then I will ask the expert in the field, Dr. Gronvall, to elaborate, if he chooses.

Actually, our system is different than you would find in the private sector in the sense that individuals who come to the VA medical centers end up getting one-stop shopping, and they normally do not get one service, but they may get a multiple number of services, and obviously, between those, there is a wait.

More importantly, perhaps, in the private sector, when an individual goes to a doctor normally, he calls in advance, and he has an appointment. However, even with an appointment, and I can tell you first hand, based on the experiences within my family, they end up having to wait for the doctor for a number of reasons.

The fact is, in many of the medical centers, the routine is that most of the people who come, come in the morning without any kind of appointment or otherwise, and the minute they get there, they are given the most efficient treatment we can. So, yes, sir, there is a waiting time. We find in most cases, and I think I can say this very objectively, in most cases, there is an understanding of that. There is a sensitivity to it, and they respond accordingly. However, in some cases, you find people who do become concerned about that, and make their views known very profoundly.

Dr. Gronvall, maybe you would like to add something.

CONSOLIDATION OF CARDIAC SURGERY

Senator NICKLES. Let me just ask a couple of quick questions, and Dr. Gronvall, if you care to elaborate further, you can. I think you had a good answer. General Turnage, there has been a proposal, I guess, that came out as far as consolidating some of the cardiac surgical units. Is that still in the wind?

Dr. GRONVALL. Well, that is a matter that was dealt with, actually, some time ago, and a set of decisions were made last year that led to the closure or termination of open-heart surgery at four of our medical centers. There are no pending actions to further close or reduce the number of medical centers doing open-heart surgery.

ELIGIBILITY CRITERIA

Senator NICKLES. Thank you very much.

Also, I am trying to remember what we did with WABA. What about non-service-connected disabilities? At what threshold? In looking at your statement, it said lower income veterans would be served, but at what threshold would a non-service-connected disability have to provide? Is it cost sharing or pay all the cost? At what level is that?

Dr. GRONVALL. Sir, the eligibility criteria involved categorizing each veteran into one of three eligibility categories. Category A includes all service-connected veterans and all non-service-connected veterans who are poor by the definition of the law.

A particular eligibility threshold by income is determined by a review of a financial questionnaire using the same criteria that are used for pension determinations. It takes into account income as well as net worth determinations and judgments, and also takes into account the number of people dependent on the veteran for support. There is not a single answer that can be given, and as the adjustments are made each year in the law, the financial eligibility threshold can change.

Senator NICKLES. I understand. If a veteran qualified for food stamps, in all likelihood, there would not be a cost-sharing requirement?

Dr. GRONVALL. As a generalization, yes, if a non-service-connected veteran is screened through our financial questionnaire.

But a veteran who is eligible for food stamps probably is at an income level where he or she would fall into Category A.

COLA PROPOSED LEGISLATION

Senator NICKLES. One final question. I appreciate the indulgence of the committee.

I noticed under the section of compensation you propose legislating an automatic COLA?

General TURNAGE. Yes, sir.

Senator NICKLES. I was thinking that it had it. Evidently, we do not. Has Congress provided this automatically?

General TURNAGE. No, sir. For the last 3 years, to my knowledge, this proposal had been made, and in each case, the Congress has taken a different view. We think, for example, there is further merit to it as reflected in what occurred this year, when the COLA went into effect, as it turned out, retroactively, with the turn of the fiscal year. Yet it was only this month, in March, that we were able to catch up with it and pay it because we did not have budget authority to do so beforehand.

Had it been automatic, we would have been able to pay it without any delay.

Senator NICKLES. This is compensation for disability? Disability comp?

Mr. VOGEL. That is correct, Senator.

Senator NICKLES. So if you had 100 percent disability or 70 percent or something, those would be compensated automatically with COLA's at the beginning of the fiscal year, I guess?

Mr. VOGEL. There is an automatic adjustment to non-service-connected pensioners. That rate increase is effective automatically based on the Consumer Price Index.

It is not true for compensation recipients. Those veterans who have a service-connected disability of 10 to 100 percent need specific legislation every year to provide whatever increase would be appropriate. We are projecting a 4.2-percent increase this year. As General Turnage indicated, absent the automatic nature, the tie into the CPI, and some delay in action on Congress' part, those individuals entitled to a 4.2-percent increase December 1 did not see it until March 1. We have picked up retroactively the months of December and January and paid February on March 1. We are proposing legislation which would treat the compensation program just like the pension program, where it is an automatic tie.

Senator NICKLES. I am confusing the two of them though, the compensation program and the pension program. The pension program is what?

Mr. VOGEL. That is for wartime non-service-disabled veterans who meet a rather stringent needs test.

Senator NICKLES. It has automatic COLA's?

Mr. VOGEL. That's right, sir.

Senator NICKLES. But the compensation program does not, and the compensation program is much bigger. It is $10.7 and the pension program is about $4 billion?

Mr. VOGEL. That is correct, sir.

Senator NICKLES. Has the compensation program not received COLA's over the years?

Mr. VOGEL. Virtually every year there has been one, and a few years going back in time, more than one. But they have received adjustments based on the cost of living.

Senator NICKLES. On congressional action, but not automatic?

Mr. VOGEL. That's correct, sir.

Senator NICKLES. I understand; thank you very much.

Senator GRASSLEY. I will follow up on that, if I could, Mr. Chairman. Then you are saying, you are suggesting this, and doing it now for 3 years in a row, just as a matter of being fair to both groups? Is that the justification for it?

Mr. VOGEL. That is right, sir. It ensures that it is provided in a timely manner.

Let me put it this way, sir. Pension recipients received an increased pension on January 1 for the month of December, but compensation recipients had to wait 2 more months to receive that adjustment.

COST-OF-LIVING/BUDGET REQUEST

Senator GRASSLEY. My last question, Mr. Chairman, would deal with the fact that if we have more than a 4-percent increase in inflation this year—and you are suggesting because of the budget summit a 2-percent increase—then does this basically mean we are going to have a reduction in services somewhere along the line in the veterans programs, VA, all VA programs?

General TURNAGE. If I understand your question, sir, the 4.2 percent is built in and will not change. It is part of the overall 2-percent increase in the budget for the agency.

Senator GRASSLEY. Let me back up. I am just talking about the 2 percent overall increase.

General TURNAGE. I understand.

Senator GRASSLEY. And then considering the fact that we probably will have 3- to 4-percent inflation over the next year, so that you are not keeping up with inflation; would it be fair for me to assume we will have some reduction in services in the next 12 months in medical care, where that 2 percent is? Or are my facts wrong?

Dr. GRONVALL. Senator Grassley, I believe your facts are correct and, of course, it is on that basis that we have projected the need to reduce the staff by some 1,800 FTEE. Inflation is a significant part of our budget and is uncontrollable when we purchase supplies, drugs, pay leases, et cetera. It is on this basis that we projected that change in the staff.

Senator GRASSLEY. And what are you prioritizing in the reduction of services?

General TURNAGE. Prior to the response to that specific question, sir, if we may, there are some different figures here from the Controller side. Let me ask.

Mr. COLE. The budget for medical care, for inflation, is based on the medical CPI of 6.1 percent. That is for nonpayroll only. The majority of the medical care budget would cover more than 4-percent inflation. The net increase in medical care is about 2.4 percent, and that is taking into account the fact that there is a pay raise absorption of 50 percent and the fact that employment is going down. So that nets out to an average of 2.4 percent. But the nonpay~~roll~~ for the medical CPI is 6.1 percent.

Senator GRASSLEY. Mr. Chairman, I will ask one last question in writing.

Senator PROXMIRE. Thank you.

OPEN-HEART SURGERY UTILIZATION STANDARD

Dr. Gronvall, I want to follow up on the questions that were asked by Senator Nickles, my good friend, who takes a different position than I take on open-heart surgery. I have been concerned over the years with the underutilization of specialized medical care facilities at VA hospitals, and I think they tend to contribute to higher mortality rates.

Let me first focus on open-heart surgery. Your current utilization standard is 150 procedures per year per facility, an increase of 50 procedures over your previous standard. Now, although 150 procedures per year is a consensus minimal standard, the Department of Health and Human Services and the Inspector General filed a report in August 1987 which reached this conclusion. Let me read it:

> Hospitals and surgical teams that perform more than 200 coronary bypass surgeries per year have better outcomes in terms of mortality rates, lengths of stay, and charges. Contracting with selected high-volume surgeons in facilities would assure that medicare beneficiaries receive the highest quality of care in the most efficient and economical settings.

Now, it seems to me that we would want to treat our veterans at least as well as medicare beneficiaries. Why don't you adopt a 200 procedure per year per facility standard contract with a high-volume facility if your own centers can't meet that standard? Particularly, that would seem to me to be true in big cities or in areas where other facilities are available. Washington is a good example, where we have done that.

Dr. GRONVALL. Mr. Chairman, we do, of course, have a number of centers that are well over the 200 per year. I think one of the factors that has to be taken into account is that the basis for a given case volume relates to the experience and capability and depth of the team doing open-heart surgery. As a generalization, in essentially every instance where we are conducting open-heart surgery in one of our VA medical centers, we are affiliated with an academic medical center and a university hospital in which open-heart surgery is also being done.

It is, therefore, regularly the case that the team of surgeons and, in many cases, a number of other members of the surgical team that actually does the procedure, do procedures in both medical centers, and so the aggregate case volume of both the VA medical center and the affiliated university hospital need to be taken into account when addressing the question of what kind of case volume experience is the team having each year.

STANDARD NUMBER OF PROCEDURES

Senator PROXMIRE. Let me get into that team question. Last year in the course of our discussion of cardiac surgery standards, you said that the standard of 150 cases per year assessed, and I quote, again:

> . . . not only the number of cases done by the VA itself, but the number of cases done by the teams, since in many instances the team operates in more than one hospital.

Now, the January 1984 issue of the American College of Surgeons Bulletin had this to say in its guidelines for minimal standards in cardiac surgery. I quote again:

> Effective use of equipment and support personnel generally requires at least 150 cases per year in each hospital.

I repeat, in each hospital. Furthermore, a January 1988 summary of research activities published by the National Center for Health Services Research had this to say:

> Patients who undergo coronary artery bypass grafts are most likely to survive in hospitals where these procedures are performed frequently.
>
> The skills of the operating room staff, the experience of the post operative staff, reliance on complex medical equipment during surgical procedures and other hospital factors may explain why high-volume hospitals experience lower mortality rates for these procedures.

I take it you would not necessarily agree with the American College of Surgeons or the National Center for Health Service Research?

Dr. GRONVALL. I agree completely with the thrust of those comments. What I would not be prepared to agree with is the singular measure of case volume in any individual hospital needs to be a categorical dividing line below which the program would be of low quality and should be phased out and above which the quality would be assured and the program should continue. I totally agree with the thrust of the comments, and it was for precisely those same reasons that we changed our set of criteria, adopted a higher set of guideline indicators for an appropriate case load volume.

Senator PROXMIRE. Now, the guidelines for minimal standards in cardiac surgery of the American College of Surgeons says, and I quote:

> It is recognized there is a critical density of case material required to maintain an adequate standard of practice. The performance of at least 150 open-heart operations per year by an independent team is desirable to maintain an adequate standard.

And it then goes on to say:

> A team may operate in more than one hospital. However, effective use of equipment and support personnel generally requires at least 150 cases per year in each hospital.

Dr. GRONVALL. I would agree with that statement. It includes the words "desirable" and "generally indicates." So I would totally agree with those statements.

Senator PROXMIRE. You and I have exactly the same objective. We want the best possible care for our veterans. We do not want to have our veterans in a position where their life is threatened because they do not have the best care that we can provide them.

Dr. GRONVALL. Absolutely.

Senator PROXMIRE. It seems to me the American College of Surgeon Standards is one that makes sense. It may not be perfect. It may be that you can shade it here and there, but it would seem to me that we are better off if we can't have 150 procedures performed in one hospital, to see if it is possible to have that done on contract in a hospital that does have that experience.

Dr. GRONVALL. Mr. Chairman, just a couple of comments. I have already said that I agree totally with that statement. While you describe it as a standard which carries a rigorous floor connotation, the statement described desirable conditions and uses terms such as, "in general, this is necessary."

Senator PROXMIRE. Desirable, if you are going to reduce the fatalities.

Dr. GRONVALL. I have agreed totally with that. My only demur is that the standard by itself, I do not believe, should be rigorously applied since the goal is quality of care. I think we learned when we reviewed all of our open-heart surgery programs a couple of years ago, including sending site teams to visit them and reviews by cardiac surgery experts from outside the VA, the issue of quality of care and quality of outcome is not defined and is not linearly related only to the case volume.

We found in instances where some of our programs had a case volume below 150, and by all indications of mortality outcome, expert assessment and on-site review, the quality of care was extraordinarily good. Furthermore, the location of some of those sites was such that to move the patient somewhere else, a considerable distance, would have imposed an additional burden on veterans which would work negatively on the quality of care being provided.

CARDIAC CENTERS WITH LESS THAN 150 PROCEDURES

Senator PROXMIRE. Well, I understand all that, and I am sure there are some hospitals that could perform maybe 50 a year and give a better job than hospitals performing 500. It is just that the American College of Surgeons are the experts in this area, and they say the standard should be 200 and you stick with 150. But you have made as strong a case as I think you can make, given our difference of opinion.

Let me ask you this: How many of your centers performed less than 150 procedures in fiscal 1987?

Dr. GRONVALL. I do not have that figure. I wonder if Dr. Winship has that figure handy.

Dr. WINSHIP. We can provide that number for you, sir.

[The information follows:]

Eighteen centers performed less than 150 procedures during fiscal year 1987. Two of these 18 centers were closed during fiscal year 1987 because of failure to meet volume standards. One of these centers had a low volume because of loss of surgical personnel essentially closing the program during most of fiscal year 1987.

Senator PROXMIRE. Can you tell us how many centers are expected to meet the 150-procedure standard in fiscal year 1988?

Dr. GRONVALL. Let us provide that. We will give the same answer.

[The information follows:]

Of the remaining 41, 35 programs are expected to meet the recommended volume of 150 procedures during fiscal year 1988.

OPERATING MORTALITY STANDARDS

Senator PROXMIRE. I understand that in addition to a procedure standard, your open-heart surgery centers are supposed to meet an operating mortality standard of 5 percent or less; is that right?

Dr. GRONVALL. Yes.

Senator PROXMIRE. How many centers had an operating mortality rate exceeding 5 percent for coronary artery bypass procedures in fiscal year 1987?

Dr. GRONVALL. Dr. Winship, can you answer?

Dr. WINSHIP. We will provide that answer for you, sir.

[The information follows:]

Nine open-heart surgical programs of the 41 programs in operation from October 1, 1986, through September 30, 1987 (fiscal year 1987), exceeded the 5-percent mortality rate for coronary artery bypass procedures. Four of these programs had operative mortality rates for coronary artery bypass grafts of 5.8 percent, 5.2 percent, 5.1 percent, and 5.5 percent, and each program had an overall open-heart surgery mortality rate not exceeding 5 percent.

Senator PROXMIRE. Can you give us any general idea what that is?

Dr. WINSHIP. It will be less than 10 percent, sir.

Senator PROXMIRE. Less than 10 percent. How many of these high mortality centers performed less than the required 150 procedures last year?

Dr. GRONVALL. I think we would have to supply that for the record.

[The information follows:]

Five programs of the nine programs exceeding 5 percent operative mortality for coronary artery bypass graft surgery had less than 150 open-heart surgical procedures performed during fiscal year 1987. I would like to call your attention to the fact that the volume standard for fiscal year 1987 was 100 procedures performed by each open-heart program, not 150 procedures. The 150 procedure standard was adopted beginning fiscal year 1988.

CARDIAC SURGERY CENTER REVIEW

Senator PROXMIRE. Last year you told us you had carefully reviewed mortality experience in every cardiac surgery center. For those centers currently doing under 150 cases per year, you have careful documentation of the results of the quality of their care. We understand that your 1987 reviews consisted primarily of a central office review of patients' medical records for those centers not meeting the mortality standards; is that correct?

Dr. GRONVALL. Dr. Winship?

Dr. WINSHIP. Yes, sir; that is correct.

RECOMMENDATIONS ON MORTALITY STANDARDS

Senator PROXMIRE. Could you tell us generally what recommendations you have made to the centers based on those reviews to help them improve their performance, providing details for each center for the record?

Dr. WINSHIP. Yes, sir; we can.

Senator PROXMIRE. What recommendations have you made? Sorry sir, would you identify yourself, again?

Dr. WINSHIP. Dr. Winship, Associate Deputy Chief Medical Director for Programs and Operations.

Senator PROXMIRE. All right; go ahead.

Dr. WINSHIP. The cardiac surgery consultants group has made reports on an every 6-months basis to all of the cardiac surgery sites and has given them the data for their mortality/morbidity numbers of cases and indicated what they needed to do in order to meet our goal of 150 cases and mortality of less than 5 percent. Sixteen hospitals have been under special review.

Senator PROXMIRE. What have you told them generally to meet those standards? What do they have to do? What kind of recommendations do you make?

Dr. WINSHIP. Sir, we have simply given them the numbers and where they are and indicated that they will need to meet the standards by the end of the prescribed time.

Senator PROXMIRE. So you have not given them any specific recommendations?

Dr. WINSHIP. In certain cases specifics have been discussed with individual hospitals and problems pointed out; yes, sir.

Senator PROXMIRE. What assurances do you have that the centers are implementing the recommendations?

Dr. WINSHIP. From further review of the record, sir.

Senator PROXMIRE. Has anyone visited the centers to find out what the problems were and what they had to do to correct those problems?

Dr. WINSHIP. Not as yet.

Senator PROXMIRE. When do you expect to do that?

Dr. WINSHIP. The 16 hospitals, those that have been under probation, if you will, or under provisional judgment, following the review of a couple of years ago, will be visited and will be reviewed between September and December 1988.

SITE VISITS TO PROBLEM CENTERS

Senator PROXMIRE. Would it make sense to site visit all centers not meeting your mortality standards by the time period of, say, 12 months, rather than to rely on a review of medical records that probably would not provide sufficient information to allow you to assess such factors as equipment or staffing problems that might be affecting the center's performance?

Dr. WINSHIP. I think it would be appropriate to site visit all hospitals that are not meeting all of our standards, sir.

Senator PROXMIRE. Do you require a below-standard open-heart surgery center to develop an action plan spelling out what steps the center will be taking to meet your performance standards?

Dr. WINSHIP. Yes, sir.

Senator PROXMIRE. Would you give us an example of that for the record?

Dr. WINSHIP. Yes, sir.

[The information follows:]

Each center with an operative mortality rate exceeding our standard or with insufficient volume, received a letter indicating the deficiency. A report of the audit conducted by the Cardiac Surgery Consultants Committee accompanied each letter. This report covered specific areas of concern, as determined by the reviewing committee members. Each program director was instructed to review those areas in which perceived problems had been identified in the audit report. In addition, the program director was instructed to develop an action plan to correct those deficiencies, submitting the plan to Surgical Service, VACO, within 30 days.

COST OF LIVING/BUDGET REQUEST

Senator PROXMIRE. Senator Nickles, anything else?

Senator NICKLES. Mr. Chairman, I will just follow up and compliment Dr. Gronvall and the VA and the work that they have done. I think it is vitally important, and I share the same goals that the chairman does, and I am sure that the VA does, and we want quality care in cardiac services throughout the country.

I know in the case of the VA center in Oklahoma City that we wanted to make sure that they did take into account the combined figures that were done, basically, in the VA center and also with the State University Hospital children's center. If you added those two figures together, they are well in excess of 150, and the mortality rates and everything else were quite acceptable, but it was important that you use those combined figures.

It was the same team providing the same surgery to different individuals in one institution which was across the street. That was the main difference. The inconvenience just to carry that a little bit further, if we had no cardiac services in the state, would mean that our veterans would end up going to Dallas or they would end up going, possibly, to Little Rock at a great financial burden to the families and a physical burden to those who needed the surgery.

So we are very concerned about the quality of services and the very strong support from the community and from the VA, as well, in wanting to provide top-quality services, and in a convenient location to our veterans. So I compliment you, Dr. Gronvall on your answers and also on the work that you have done in this area.

Just one final comment. Again, it goes back to the same question that Senator Grassley asked. I am not totally comfortable with the answer. If we are giving, under the agreements that were reached under the budget summit, if we give 4.2 percent, say, inflation for all salaries, retirements, compensation, in this case, and your total outlays are limited to a growth of 2 percent, not 2 percent real, but 2 percent nominal?

Mr. COLE. Yes; our discretionary program growth is 2 percent in the budget.

Senator NICKLES. Wait a minute. Are you saying just your discretionary programs?

Mr. COLE. Yes; just the discretionary program growth is 2 percent.

Senator NICKLES. So the budget agreement allows for a 2-percent increase in wages, pensions, compensation, and then a 2-percent growth in all other functions; is that accurate?

Mr. COLE. Yes; overall, sir.

Senator NICKLES. OK. I think maybe there was a misconception that we were going to limit your total outlays, total outlays from 1988 to 1989 to 2 percent, and out of that 2 percent you had to fund the 4-percent COLA's in all functions.

Mr. COLE. No; we did not.

Senator NICKLES. So the budget agreement allows COLA adjustments and salaries?

Mr. COLE. Yes.

Senator NICKLES. Salaries, pensions, et cetera.

Mr. COLE. Not salary; salaries are part of the discretionary program, and we got a 2-percent pay raise, of which we had to absorb 50 percent of it, so we really only got 1 percent.

Senator NICKLES. So salaries are under the controlled amount?

Mr. COLE. Right.

Senator NICKLES. But outside of the budget agreement, or part of the budget agreement, was 4 percent your inflation adjustment for the pensions and compensation?

Mr. COLE. Correct.

Senator NICKLES. OK. Thank you very much.

MADISON VAMC

Senator PROXMIRE. General, let me come to the critical question of the day, as far as I am concerned. As you know, we included $12.5 million in the fiscal year 1988 appropriations bill for the design and construction of central air conditioning in the Madison VA hospital. I understand that an award for preliminary design work will not be made until July 1988, a full 6 months after the appropriation became available. Why is it taking so long to make the award?

Ms. LIVINGSTONE. Mr. Chairman, my name is Susan Livingstone. I am Associate Deputy Administrator for Logistics. Basically, we also have to develop conceptual solutions to that project. As you know, some work had been done by the medical center that needs to be updated. We project that it will take until July, until the actual preliminary design contract can be awarded.

Senator PROXMIRE. It will take until July; is that right?

Ms. LIVINGSTONE. Yes, sir. Basically the design approach to a project is three-pronged. First, we address various conceptual solutions for correcting the deficiency. That is called conceptual development. Then we go into preliminary design drawings and then we conclude with the final construction documents, or working drawing design.

Senator PROXMIRE. It will take more than 6 months before you get a decision on that.

Ms. LIVINGSTONE. It is not so much a decision.

Senator PROXMIRE. December until July?

Ms. LIVINGSTONE. The project will be moving forward. In fact, it has been added to our fiscal year 1988 advanced planning list. Conceptual development is initiated for the project, and then we will award preliminary design once the concept has been selected this July.

Senator PROXMIRE. It appears that construction at the Madison air-conditioning project will not be finished until April 1992. That means patients at the hospital will have to endure summer heat waves for 4 more years. Really, it is very humid in Madison. A lot of people think because Madison is in Wisconsin it is a great city, and it is a great state, but it gets very humid, believe me, in the summer.

They have had very serious problems with the veterans hospital in Madison, because it is not air conditioned, as are other hospitals in the general climate area, or that parallel. Is there some way we can speed up that timetable?

Ms. LIVINGSTONE. Mr. Chairman, I can assure you we will do whatever possible to expedite the time frame for construction. Basically, we are dealing with a situation in which we are trying to maintain operations of the medical center at the same time we are conducting what will be fairly extensive renovations required for the air conditioning.

Therefore, this project, no doubt, will require some fairly sophisticated phasing to keep the medical center in operation while we are installing the central air conditioning. I can assure you we are not deliberately trying to delay; we want to finish this project as quickly as possible, and indeed, one item that we have under consideration is to delegate this project to the medical center if they feel that they could address those phasing issues more quickly than, perhaps, central office could.

Dr. GRONVALL. Mr. Chairman, may I add to that that the people at the medical center recognize that it is going to take some time because, as Ms. Livingstone says, in an operating hospital you can't just go in and close major parts of the hospital easily to install central air conditioning through an existing operating building.

We have plans underway to use a significant number of window air conditioners during this time period. Last summer, in fact, an upgrade was made in the electrical system at the hospital, which will allow enough electrical support so that up to 200 window air conditioners could be used during that interim period of time when the new central air conditioning system is in construction.

The electrical system in that building was upgraded last summer. So the medical center is working on an interim plan to deal with the three or four summers while the major project is being completed. So I think we can assure you that the combination of these two approaches will keep that hospital in operation; result in a state-of-the-art central air conditioning system; and, in the meantime, deal with the very hot and humid summers in Madison.

Senator PROXMIRE. Well, I certainly hope that that happens, and soon. This is my death wish, you know. [Laughter.]

MADISON FUNDING SHORTAGE

We are told that the $12.5 million we appropriated may not be sufficient to complete the project. I would like to be sure we get the necessary funding for the project before I leave the Senate. Can you tell us how much more will be needed?

Ms. LIVINGSTONE. Mr. Chairman, unfortunately, we cannot predict that until the preliminary design is completed, which is scheduled for this October. At that point, given the current schedule for the project, if additional funds are required, and we don't have sufficient funds to accommodate the full scope of the project, we could, without interfering or delaying the schedule, request those in the fiscal 1990 budget as a supplement to the project.

NURSING HOME CONSTRUCTION

Senator **Proxmire**. I won't be here to bother you. That may be a blessing, but it is a fact.

Now on nursing home construction, you are requesting $6.7 million in fiscal year 1989 for a 120-bed addition to the Tampa nursing home care unit. This is your only nursing home construction initiative for the coming year.

On March 7, I met with the state commander of Wisconsin's VFW chapter, who made a strong case for another VA nursing home in Wisconsin, perhaps a satellite facility. They felt the need was particularly strong in the southeastern part of the state, which is densely populated. That is where much of our population is. Is the VA considering such a project and/or have you done a needs analysis?

Ms. **Livingstone**. To date, Mr. Chairman, I do not believe there is an active project that has been identified for construction of a nursing home care unit in Wisconsin. However, as you know, the Department of Medicine Surgery has a decentralized planning system, and I understand their new cycle plans will be in this summer. Perhaps Dr. Gronvall can address that.

Dr. **Gronvall**. I don't have specific details, but I will certainly review our situation. We do monitor nursing home bed projections throughout the country. We take into account not only the VA's plans, but the state home program as well as the plans and projections of community nursing homes that we use on a contract basis. So we carefully monitor the situation and I would be glad to look into the issue of Wisconsin and supply an additional comment for the record.

Senator **Proxmire**. I would appreciate that very much, Dr. Gronvall.

[The information follows:]

Nursing Home Care—Wisconsin

VA medical centers in Wisconsin currently have a total of 300 nursing home care unit [NHCU] beds: Milwaukee, 200 beds; and Tomah, 100 beds. Madison VAMC has proposed a conversion to 30 NHC beds which is planned to activate in 1991. An additional 80 NHCU beds are proposed for Tomah, with construction planned to begin in 1991. This will bring the total of VA NHCU beds in Wisconsin to 410.

Medical District 16 is responsible for planning future veteran health care needs for the majority of Wisconsin. They have always encouraged the use of alternatives to nursing home care wherever possible. In addition, as you are aware, the state of Wisconsin also provides a community options program for citizens who wish to maintain their residence in the community for as long as possible prior to nursing home admission.

To date the state has submitted no plans to expand its current state home nursing home program.

Senator **Proxmire**. Did you want to follow up?

Ms. **Livingstone**. If I can add two points. One is a correction for the record, and that is: While the fiscal year 1989 budget request does request funding for the 120-bed nursing home in Tampa, it also requests funding for the 240-bed replacement nursing home in Pittsburgh. So we really have two nursing homes in our budget. The Pittsburgh project is just a net gain of 12 new beds to the system, but indeed, it is a nursing home.

Second, as part of the fiscal 1989 conversion program where we are looking at converting hospital beds to nursing home care beds, there is a proposal for conversion of 30 hospital beds to nursing home care beds at Madison. If that project receives the green light, then design funding would be in fiscal 1989 with construction the following year.

RENAL TRANSPLANT CENTERS

Senator PROXMIRE. I would like to ask you some questions on renal transplant specialized centers. Last year you submitted information for the record indicating that your kidney transplant program had a standard of 15 procedures a year, but only 40 percent of the units met that standard, and you had no plans to close any of the units, not even the unit that performed only one procedure. Why aren't you moving to close those facilities?

Dr. GRONVALL. Again, I think, Mr. Chairman, we set up a set of criteria and then review all of those operations, and the final judgments about which programs continue and which are closed take into account a set of judgments that include the outcome, the extent to which the program is meeting needs and is producing good results. We do not use any individual criteria as an absolute requirement for continuation of the program or closure of tha program.

Senator PROXMIRE. According to a Department of Medicine and Surgery Circular dated August 6 of last year, the Health and Human Services Organ Transplantation Task Force proposed that renal transplantation centers perform a minimum of 25 renal transplants per year.

Now, the VA Ad Hoc Advisory Committee chose a standard of 12, less than 50 percent of the HHS standard, and I quote, "because a substantial number of VA renal transplant centers do not meet HHS standards but are able to provide high quality care."

Why do you suppose HHS chose the standard of 25, if it is not necessary to achieve high quality care?

Dr. GRONVALL. I can't speak for them. I do not know.

Senator PROXMIRE. Have you discussed the HHS standard with the Organ Transplantation Task Force?

Dr. GRONVALL. I am quite sure that the individuals in our central office and in the field who are responsible for our renal program have reviewed that in detail and have discussed it in detail with HHS officials. We maintain close working collaboration at the staff level with the other health organizations.

Senator PROXMIRE. You may be right, or they may be right, but it is difficult for us in the Congress to determine. If you do have information indicating that their standards are too stringent under certain circumstances, I think you have the duty to share that information with the task force. Have you done that?

Dr. GRONVALL. I do not know. I am unaware of the character of our discussions with HHS on that matter.

Senator PROXMIRE. Will you provide this for the record?

Dr. GRONVALL. I would be pleased to.

[The information follows:]

RENAL TRANSPLANT

A member of the staff of the Veterans Administration Medical Center in Iowa City, Iowa, was a member of that task force. In addition, a member of the Office of Strategic Planning, prior to aiding in the preparation of our August 6, 1987, circular, conferred with the Executive Director of that task force, Ms. Linda D. Sheaffer (Office of Organ Transplantation of the Health Resources and Services Administration of the Department of Health and Human Services). It should be noted that there was not unanimous agreement of the membership of the task force to establish 25 renal transplants as a minimum standard for a renal transplant center. The task force noted that 42 percent of the renal transplant centers in the United States did not meet this 25 number minimum. Further, it was noted that Medicare previously had established a minimum limit of 15 renal transplants to be performed by any center receiving remuneration from that agency.

LAWTON, OKLA., OUTPATIENT CLINIC

Senator PROXMIRE. Senator Nickles, anything else?

Senator NICKLES. Mr. Chairman, thank you. Just one final parochial question.

General Turnage, or can someone else on your panel, give me an update on where we stand as far as an outpatient clinic in Lawton, Okla.

Senator PROXMIRE. I think Ms. Livingstone can.

Ms. LIVINGSTONE. Thank you. Yes, I can, Senator Nickles. As you know, the VA was originally planning on establishment of an outpatient clinic in Lawton in fiscal year 1989. In fiscal year 1988 Congress did add funding that would permit an earlier lease award for an outpatient clinic in Lawton. As a result, we are trying to accelerate our schedules and currently are targeting lease award for the Lawton outpatient clinic this September.

One of the options, however, that is being looked at is a potential 5-year interim lease in space pending development of a more permanent solution with Fort Sill, and that option is under consideration right now. There have been several economic cost analyses performed, and those are under review. But right now, we are targeting an award for the outpatient clinic this September. That would result in activation in about December 1989.

Senator NICKLES. So would that be, you are talking about lease award in September?

Ms. LIVINGSTONE. This September; yes, sir.

Senator NICKLES. Would that be to lease what, an existing hospital; is that it?

Ms. LIVINGSTONE. It could go either way. We issue a solicitation for offers, basically asking the private sector to meet certain minimum requirements that we have. They can meet those requirements either through renovation or alteration of an existing building and/or constructing a building to meet our requirements so, basically, they can provide the requirement in either way.

Senator NICKLES. So basically, you will just be opening it up for bid and there are a couple of options. They have one enclosed hospital, I think, that they were looking at renovating part of it, and/or construction of a new facility. If that is the case, why wouldn't we solicit those bids now?

Ms. LIVINGSTONE. At this point, it is premature in the process for us to do that. We have not completed all of our market surveys in that area, and we still need to determine what the long-range solution potentially will be based on the economic cost analyses we have done thus far.

For instance, the economic cost analyses currently are indicating it would be more cost effective to go for an interim lease for 5 years pending development of a permanent outpatient clinic site on land that would be offered, hopefully, free of charge, from Fort Sill. Those decisions have not yet been made.

As I said, this project was one that was accelerated from a 1989 funding horizon. So we are trying to accelerate those decisions very quickly. We have had teams out there gathering information, and we will have additional teams out there over time, but we are trying to accelerate this as quickly as possible.

Senator NICKLES. I appreciate that very much. Thank you very much, and thank you very much, Mr. Chairman.

General TURNAGE. Senator Nickles, we will be glad to keep you advised of the progress of that particular event.

Senator NICKLES. General, I appreciate that, thank you.

IG AUDIT—COATESVILLE

Senator PROXMIRE. In September 1987 the VA Inspector General completed an audit of the VA Medical Center in Coatesville, Pa. A major finding was that improvements in patient care management practices could reduce unnecessary hospital stays and, thus, provide more effective utilization of resources with cost efficiencies estimated at about $481,900 a year.

The IG audit revealed that the length of stay at VAMC Coatesville varied from 22 to 177 percent higher than the national average for most bed care services. What action is being taken to reduce the length of the stay?

Dr. GRONVALL. Mr. Chairman, I am not familiar with the details. Whenever the IG does an audit, and of course, they do dozens every year in our medical centers, we respond to each of their recommendations. Those that we concur with and reach agreement with the IG are then translated into an implementation plan to correct each of the deficiencies that the IG has found.

I would be pleased to supply for the record the followup status of actions taken in regard to the Coatesville audit.

[The information follows:]

VAMC COATESVILLE, PA.—IG REPORT

The Office of the Inspector General conducted a routine audit of the Coatesville VA Medical Center in 1987 as part of its cyclical coverage of VA health care facilities. The purpose of the audit was to determine whether certain medical center operations were being conducted economically, efficiently and in compliance with applicable laws and regulations. The audit team recommended management improvements in eight (8) areas:

Patient Care Management.—The audit team determined that some patients remained in hospital beds longer than necessary and others were inappropriately admitted when another modality of care may have been more economical. Six management improvements were recommended and have been completed.

Planning for Nursing Home Care.—Improvements were needed to ensure compliance with VA regulations and optimum economy and efficiency of operations in providing nursing home care. Five management improvements were recommended and have been completed.

Reportable Patient Incidents.—Special incidents involving veteran patients were not always reported, investigated or analyzed as required by Federal and VA regulations. Five management improvements were recommended and have been completed.

Medical Administration Service Controls.—Strengthen controls over administration of ineligible patients, admission and retention of veterans in outpatient programs, stewardship of restricted personal funds of patients. Seven management improvements were recommended and have been completed.

Equipment Management.—Controls over equipment management needed to be strengthened and implementation of the equipment preventive maintenance program completed. Two management improvements were recommended and have been completed.

Debt Management.—More timely and aggressive follow-up on accounts receivable was indicated. One management improvement was recommended and has been completed.

Linen Management.—Improved controls over linen operations were needed. Six management improvements were recommended and have been completed.

Facility Construction and Maintenance.—Improvement was required in the planning process. One management improvement was recommended and has been completed.

The final report was completed and distributed in September 1987. Management completed implementation plans for improvements during the course of the audit. The audit team found those plans responsive to the recommendations of the audit team. As a result, the audit recommendations and issues presented were determined to be resolved. Patient Identification Procedures were not audited, consequently, there were no recommendations regarding this area.

COATESVILLE LENGTH OF STAY

Senator PROXMIRE. What are the goals for Coatesville length of stay in fiscal 1989 for the medicine, intermediate, and psychiatry bed sections?

Dr. GRONVALL. We would supply that for the record.

[The information follows:]

VAMC COATESVILLE, PA.—LENGTHS OF STAY

Management at VA Medical Center Coatesville, PA has adopted a 20 percent goal for reduction of lengths of stay in all three bed sections in FY 1988. This results in the following goals:

[In days]

	FY 1987 actual	FY 1988 projected
Medicine	57	46
Intermediate	453	362
Psychiatry	51	41

Based upon actual data for FY 1987, the Coatesville VA Medical Center continued to range above the national average by 13 to 125 percent. However, this level represents a significant decrease from FY 1986, as reported by the IG. The goal for FY 1989 will be determined following the actual FY 1988 experience, but will continue to reflect a decrease more nearly approximating national levels.

Senator PROXMIRE. Let me ask you this. The Coatesville VAMC has been under scrutiny by the media due to the death of a 39-year-old Philadelphia man who died due to a series of mistakes made by VA employees. The Inspector General's report specifically recommended strengthening policies and practices regarding reportable patient incidents over 1 month before this patient died. Yet, according to press accounts, the staff members failed to heed eight or nine red flags.

That should have warned them that they were proceeding improperly. It appears they did not act on the IG's report. What is the timetable for the hospital's implementation of the IG's recommendations?

Dr. GRONVALL. As I said, I am not familiar with the details. I will supply that for the record.

[The information follows:]

The cost to convert the remaining beds, excluding nursing home beds, to unit-dose is $22 million.

MARION, IND., FUNDING SHORTAGE

Senator PROXMIRE. General Turnage, an article in the Chronicle Tribune, Marion, Ind., said that the VA medical center there received $1.35 million less than expected. I find that quite hard to believe since Congress added 3,810 full time employees and $187 million to the President's medical care appropriation request for fiscal year 1988. Why did the Marion VAMC receive $1.35 million less than expected?

General TURNAGE. One of the complex issues associated with the budgeting process is to take the 172 medical centers and 228 outpatient clinics and then take in excess of $10 billion and allocate it in an appropriate way, Mr. Chairman. As a result, the system is constantly under review and changes are made each year based on a number of different variables. Having said that, obviously, some hospitals, then, are winners and some are losers in the budgeting sense. I think that Dr. Gronvall might like to elaborate on that.

Dr. GRONVALL. Yes, General Turnage has given us the precise answer. We monitor the workload at each of our medical centers. We document the actual amount of patient care delivered through the use of the diagnosis-related group methodology, and when we actually make the allocation to each medical center it reflects their workload in relation to the workload achieved throughout the system. So even though the Congress might increase both our aggregate staffing level and our total funding level, we will have a number of individual medical centers who will, from one year to the next, receive a reduction in funding if their workload and its relationship to their cost experience puts them in an unfavorable comparative position to other medical centers.

Senator PROXMIRE. For the record, would you give me a specific response as far as the Marion, Ind., facility is concerned?

Dr. GRONVALL. Yes; I would be pleased to submit the information.

[The information follows:]

MARION, IND.

The February 10, 1988, newspaper article reported a $1.35 million shortfall at the Marion, Ind., VA Medical Center. Medical Center Management did not provide the information to the newspaper. The dollar amount was provided by an unknown source and has no identifiable factual basis. The current year budget for the VA Medical Center in Marion, Ind., is larger than it has been in previous years. The purchasing power of that budget, coupled with a growing demand for services, has required internal reprogramming of over $1 million. The Marion staff is reducing operating costs in nonpatient care areas to ensure continued support to patient care programs. The budget adjustments have been successfully implemented in a manner which will protect both the quality and quantity of patient care services to veterans treated at the Marion, Ind., VA Medical Center.

HAWAII CONSTRUCTION

Senator PROXMIRE. The delegation from Hawaii has expressed interest in the construction of a veterans hospital in their home state. In June 1987 a task force appointed by VA's Chief Medical Director produced a draft report on Hawaiian veterans health care. The report recommends construction of a free-standing VA hospital center on Oahu that encompasses hospital, outpatient clinic, and nursing home capability. When do you intend to issue a final report on that?

General TURNAGE. Very shortly, sir. As a matter of fact, that has been an issue for sometime, and one of such concern to me that I personally visited the islands to determine where we stood on that. Then subsequently, at my request, Dr. Gronvall did the same thing. Once again, it is a matter of three different solutions to the problems. One was a short-range solution to include additional personnel and so forth, and an expansion of the existing outpatient clinic capacity.

Then the second would be an intermediate enhancement. Third, the question of the hospital itself, and we are working now with the Army and Tripler Hospital, which we have an agreement with, to determine if a hospital or the opening of a VA wing to the Tripler operation to include partial staffing by VA otherwise would be a more reasonable solution to that problem. I have this on my desk, and I will be making a decision at an early time.

Senator PROXMIRE. Can you give us any notion of when you would issue a final report?

General TURNAGE. I would think that we would have something on the order of 60 to 90 days, sir.

Senator PROXMIRE. Did you include any funding for the Hawaii facility in your initial submission to the Office of Management and Budget?

Ms. Livingstone. No; we did not.

General Turnage. No; we did not.

HAWAII CONSTRUCTION PRIORITY

Senator Proxmire. Can you give us an idea of where the construction of a VA hospital in Hawaii would stand on your construction priority list?

Ms. Livingstone. Mr. Chairman, I believe at this time that has not been calculated. You know we have a weighted prioritization methodology that actually produces a score. It is my understanding, however, that the veteran health care needs in Hawaii would rank very high, and if construction of a new hospital is the ultimate option and is determined to be the most effective solution, it would be of a high priority.

HAWAII READJUSTMENT COUNSELING

Senator Proxmire. Dr. Gronvall, last year's conference report directed you to make available an additional 12 full-time employees for readjustment counseling services in Hawaii. Senator Inouye would like to receive a report regarding the extent to which you have carried out that directive.

Dr. Gronvall. I would be pleased to do so. We have made those spots available, and we would be pleased to supply the details for the record.

[The information follows:]

Readjustment Counseling Service in Hawaii

Readjustment counseling service initiatives in Hawaii have been planned in accordance with the findings of the Hawaii Veterans' Health Care Task Force which conducted formal on-site assessments and made specific recommendations regarding health care services for the neighbor island veterans. The specific distribution and location of FTEE in Hawaii has been developed in conjunction with the Department's plans for establishing four primary care clinics on the neighbor islands—one on Kauai, one on Maui, and two on the big island of Hawaii. The implementation plan calls for co-locating four new vet centers of three FTEE each in space immediately adjacent to the four primary care clinics.

FUNDING GROWTH—DRUGS AND MEDICINES

Senator Proxmire. The table on page 6–1 of your justifications indicates that you are experiencing unanticipated growth in the cost of drugs and medicines. Last year at this time your budget for 1988 assumed the expenditure of $588.6 million for drugs and medicines. This year's justifications have revised that figure upward to $621.3 million.

I recognize that a portion of this 5.5-percent increase may be attributable to an increase of 1.5 percent of your initial patient workload estimate. What accounts for the remainder of this increase?

Dr. Gronvall. Every year we attempt to estimate the cost of drugs that will be prescribed by our physicians, but that estimate is just an estimate. The year rolls along, the actual cost of drugs and medicine is controlled by the number of prescriptions and the price increases that we experience in the private sector. We have sought to enter into larger and larger contracting arrangements to get the the most advantageous prices on drugs. I think we have had a good deal of success in holding down the price escalation, but basically the price of drugs is set outside the VA and we purchase the drugs that are necessary for our patients.

Senator PROXMIRE. You have estimated drugs and medicine costs of $666.8 million in 1989. That is an increase of 15 percent over your 1987 expenditures in that area. On the other hand, your patient workload, inpatient and outpatient, will increase by only 1.4 percent if your projections are accurate. Can you tell us why drug costs are increasing so dramatically and provide details for the record?

DRUGS AND MEDICINES

The 15-percent increase in the estimated costs of drugs and medicines between 1987 and 1989 is primarily due to the estimated impact of inflation. The projected rate of inflation for all medical commodities is 6.1 percent in both 1988 and 1989, which accounts for approximately 84 percent of the total increase. Other increases in the cost of drugs and medicines are due to increased workload and the advent of new, expensive drug therapies such as AZT in the treatment of AIDS patients.

Dr. GRONVALL. It is a combination of several factors. New drugs that become available that are extremely beneficial in medical terms are often extremely expensive to purchase. A good example would be the advent of the drug AZT which has been made available as an additional drug therapy to help slow down the progression of AIDS, but the drug costs approximately $7,000 per year per individual patient. So we experience those kinds of cost increases. Again, the price of drugs is set by the private sector, and we purchase drugs under competitive bidding, but ultimately, we purchase the drugs that our physicians decide to prescribe for the veterans that we are caring for.

PROCUREMENT STANDARDIZATION

Senator PROXMIRE. Your budget justifications show anticipated savings of $3.1 million in fiscal year 1989 due to standardizing the procurement of medical supplies. General Turnage, last year you estimated a cost savings of $10 million from the standardization of 13 items. You estimated 10, but you are now showing an anticipated saving of only $3.1 million. Why can't you achieve the $10 million goal you set for yourself last year?

Ms. LIVINGSTONE. Mr. Chairman, if I might respond to that, the $3.1 million that is reflected in the fiscal 1989 budget really was a best guess, since this is a new initiative based on what the Coopers & Lybrand report on our procurement processes estimated could be saved if we would standardize on 89 items.

In fact, we are bringing a consultant onboard to help us develop a methodology for projecting cost avoidance on this initiative. I think it is a realistic assessment to project that we will achieve a $10 million savings between now and the end of fiscal year 1989.

We have already standardized some of our initial items. We have 4 standardized to date under the pilot, and we have 190 items targeted for standardization between now and the end of fiscal year 1988.

INSULIN INITIATIVE

Senator PROXMIRE. Last year you said that insulin had been approved for inclusion in the national contracts programs in response to a procurement study conducted by Coopers & Lybrand. According to Coopers & Lybrand, the VA Marketing Center estimates that the VA could save $3.5 million annually if as few as 60 percent of the medical centers commit to purchasing all their insulin through national contracts. How much did you save in fiscal year 1987, and what savings do you estimate in fiscal year 1988 as a result of awarding a national contract for insulin?

Ms. LIVINGSTONE. There are several insulin initiatives on board here, so I hope I am going to provide the correct response. If not, I will correct it for the record.

We initially took nine items of insulin that had an estimated projected annual sales of about $5.3 million and our estimated cost savings on that was about $1.2 million. We are also looking at some other initiatives that would further standardize on insulin items, but for those nine items, the cost savings was about $1.2 million.

Senator PROXMIRE. That varies from the Coopers & Lybrand estimates that you could save $3.5 million annually if as few as 60 percent of the medical centers committed to purchasing all of their insulin from national contracts. You say $1 million what?

Ms. LIVINGSTONE. $1.2 million in fiscal year 1987. I will cross check that, sir, and we will respond to you for the record concerning what might account for the difference.

[The information follows:]

NATIONAL CONTRACT FOR INSULIN

Coopers & Lybrand used the terminology "national contracts." The VA has implemented that concept as the promotion of aggregate buying through acquisition innovations. The result is to reduce expenditures by maximizing the agency's buying power for specific items or commodities.

Insulin products normally have been procured through multiple award federal supply schedules. To achieve further cost efficiencies, the marketing center projected $3.5 million savings annually through the use of a national contract. This was based on fiscal year 1985 volume of $7 million and the premise that a single contract could be awarded for all insulin. These requirements were also based on the usage trends of standard and purified insulin (beef and pork).

However, over the past few years, a shift toward human insulin has become prevalent in the medical community. As a result, human insulin is now more frequently used to meet our patients' needs. Consequently, a single award was not practical due to the diversity of manufacturers' insulin products which are not therapeutically equivalent. However, in an effort to still implement an effective contracting methodology that would achieve cost savings on insulin, the VA evaluated several concepts. Subsequently, we awarded three contracts which contained up to nine insulin items. It is recognized that these contracts do not include all insulin items that were originally anticipated for single award. Rather, the new perspective was to identify a number of high usage insulin products and make them available to medical centers. In return, facilities would commit their insulin needs to a specific contractor for a 1-year period. These contracts provided special pricing lower than the unit costs of the same items available from existing federal supply schedules.

In fiscal year 1987, we achieved approximately $1.2 million in savings based on projected purchases of $5.3 million under our national contract. Therefore, we believe that our achievement of $1.2 million is exceptional, based on changes in therapeutic usage. As a result, current national contracts have been extended for another year. The marketing center will continue to work with DM&S clinical affairs to further develop the most efficient procurement strategy for insulin products.

OTHER SUPPLIES FOR NATIONAL CONTRACTS

Senator PROXMIRE. What other supplies have been approved for national contracts since the Coopers & Lybrand study?

Ms. LIVINGSTONE. We also have added acetaminophen products and have added a number of items to our depot system which, in essence, is a form of standardization and national contracting. Since July 1986, we have added 346 items to our depot system. We have standardized additionally on the four items just mentioned, including the famous specimen cups that were highlighted in the Coopers & Lybrand report. There are other significant initiatives, sir, in addition, that we have undertaken, and I will be pleased to respond for the record.

[The information follows:]

COMPETITIVE AWARD IV SOLUTION CONTRACT

A major Office of Acquisition and Materiel Management [OA&MM] initiative undertaken this year is the award of a competitive contract for IV solutions and administration sets. This effort requires a collaborative relationship with DM&S to achieve anticipated cost savings and efficiencies. As a result, representatives from OA&MM and members of DM&S laid the groundwork to identify and develop commodities for which competing manufacturers can provide equally acceptable products.

To understand the initiative, the following information illustrates how IV solutions are currently procured.

Over the past 3 years, the marketing center has established a creative contract arrangement with the three IV solution manufacturers for 17 high-volume IV solutions. Each manufacturer provided pricing under which each medical center would agree to 1-, 2-, to 3-year agreements to utilize the selected manufacturer for those IV solutions. The value of the ensuing contractual arrangement aggregated to $42.2 million through the 3 years and saved $4.7 million a year.

The solicitation for the competitive award concept would be a fixed-price, sealed bid for government requirements for 1 year with four prepriced option years. The VA, which is a primary client, would agree to utilize the contractor as a mandatory source for 109 solutions and administration sets. A medical center would be required to use the contract except in cases of emergencies or legitimate medical need. The inducement, both in dollar volume and the potential for long-term demand stability, is expected to result in price competition much more intensive than has been experienced in the past. We believe further price reductions of 10 percent or more can reasonably be expected. The value of the contract is expected to be approximately $25 million annually. Current important milestones would be contract award by May 15 with phase-in of all conversions by October 1. Cost avoidance/savings will be realized in fiscal year 1989.

AWARDING INDEFINITE QUANTITY REQUIREMENTS

Senator PROXMIRE. The Coopers & Lybrand study also found that of $453 million spent on medical supplies in both fiscal 1984 and 1985 through local procurement, $370 million cannot be traced or analyzed. The $370 million was spent on expenditures of unposted items, those not normally stocked in the hospital inventory. In order to deal with this problem, Coopers & Lybrand recommended that each medical center should solicit and award annual indefinite quantity requirements contracts with local vendors/distributors. Where do you stand in the implementation of that recommendation?

Ms. LIVINGSTONE. The medical centers are proceeding with the award of the indefinite quantity requirements contracts, and a circular was issued by the Department in January of this year that reinforced the appropriateness and the benefit of that initiative.

It should be noted, however, that the most significant recommendation and corrective action that Coopers & Lybrand recommended in that particular area was to improve our system, which basically did not capture that data because it is a very antiquated ADP system, and we do have a very significant initiative underway to replace our LOG 1 system with a system that will fully capture all the data in the procurement arena.

CONSTRUCTION, MAJOR OBLIGATIONS

Senator PROXMIRE. General, you are requesting a total of $367,755,000 for construction major projects in fiscal year 1989, a decrease of $35,129,000 below the current appropriation.

I am concerned over your failure to obligate funding for major construction projects in a timely fashion. Let me be more specific. Last year's justifications indicated you would obligate $857.7 million for major construction in 1987. You ended up obligating only $586.6 million, about one-third less than last year's estimate. Can you tell us why you are so far off the mark?

Ms. LIVINGSTONE. Mr. Chairman, if I might respond to that, we, to our chagrin in the construction business, have been using incentive scheduling for our operating plans. We basically have anticipated breakage, but we felt it was appropriate to set a very high goal and, hopefully, be able to achieve most of that. Today, we have revised our approach and are setting a more realistic scheduling for our operating plan, but nonetheless, with the obligations that were made in the major account last year, we still achieved $135 million more than we obligated in fiscal year 1986, and indeed, the overall obligations for construction in fiscal year 1987, $766 million, were the highest in VA history.

So while we are off from our operating plan, that just shows that we are off some of our incentive scheduling and, hopefully, our 1988 operating plan will be more realistic in terms of scheduling. Nonetheless, our actual obligations are way up.

Senator PROXMIRE. They are way up, but apparently you were much, much higher than you came anywhere near. You indicated you would obligate $857 million, but you ended up obligating about a third less.

Ms. LIVINGSTONE. Yes, sir; we had some major project awards that we had hoped to make. Again, in the construction business you have slippages. One of those, for instance, was a $70 million clinical addition in New York City. We had hoped to make award for that project by the end of fiscal year 1987. It made the bid opening date, but we only received one bidder, who was about 50 percent over our available funds. Those types of problems occur consistently in the construction business. We lost several of those types of projects for which we had hoped, if all things had worked smoothly, we could award. Unfortunately, they did not. In New York we are trying another contracting approach in the hope of still making the award.

Senator PROXMIRE. They seem to be increasing more rapidly. VA reported obligations were not incurred for 29 major construction projects within the required time limits. By contrast, only eight projects were reported delinquent in 1985. So why has the number of delinquent projects increased so sharply since 1985?

Ms. LIVINGSTONE. Part of that is attributable to the size of the program. There are very distinct reasons for each of those projects. Some of them were projects like Detroit, for instance, where money was provided earlier by Congress than we could actually spend. Some of them are problem projects, like the New York clinical addition. Other projects where we are having difficulties are those where the design cost estimates are coming in too high, given the availability of funds.

Some of those projects were Gramm-Rudman projects that took cuts in fiscal year 1986, and we have been having difficulty getting some of the designs to incorporate the cuts that were made that year. Four of those projects, for instance, funded in fiscal year 1986, did require cost limit increases to make actual award. So there are a variety of reasons for the delays, and we would be pleased to provide a detailed listing of those reasons for each of those projects on that list.

[The information follows:]

REASONS FOR DELAYS ON REPORTABLE PROJECTS

ALLEN PARK/DETROIT, MI - Replacement and Modernization

This working drawing contract was reported for FY 1986 and FY 1987. Congress provided site acquisition and design funding for this project in FY 1986. The design money was provided prematurely in that the schedule for concept selection and preliminary design would never have allowed for a working drawing design award in FY 1986. In fact, the present schedule does not anticipate working drawing design award before the Fall of 1989 at best. The preliminary plan contract was awarded in September 1987.

The VA is currently negotiating the land acquisition with city officials. A site obligation is possible in late FY 1988.

AMARILLO, TX - 120-Bed Nursing Home Care Unit

The working drawing contract was reported for FY 1986. This project was reportable for construction in FY 1987. This project was originally delayed pending approval of the prototype nursing home and an unsuccessful attempt at using a CADD system. The contract documents took longer than originally anticipated to complete because the prototype had to be modified to meet local climatic and seismic requirements. The construction award is scheduled for September 1988.

BROOKLYN (ST. ALBANS), NY - Modernize Kitchen

The working drawing contract was reported for FY 1986. This project was reportable for both working drawings and construction in FY 1987. Partially completed preliminaries were transferred to the Medical Center for completion in April 1986. The Medical Center decided to redo the concepts and complete preliminaries based on the new concept. This has delayed the completion of preliminaries. In addition, the Medical Center is requesting a scope change to utilize a cook-chill system. A working drawing award is currently scheduled by the Medical Center for September 1988 with a construction award scheduled for June 1989.

BUFFALO, NY - Research Building/Clinical Addition

The construction award was reported for FY 1986 and FY 1987. Heating, ventilating and air conditioning changes requested by DM&S Research Service and the VAMC at second working drawing review delayed the completion of working drawings to October 1987. Bids were opened February 18, 1988. A cost limit increase and reprogramming are in process.

REASONS FOR DELAYS ON REPORTABLE PROJECTS - (Continued)

CHEYENNE, WY - Renovate/Expand Building 1 for Clinical Functions

The construction award was reported for FY 1986 and FY 1987. A change in scope caused a delay in the completion of working drawings. The project was competitively bid to small business firms only and awarded March 4, 1988.

CHICAGO (WS), IL - Fire and Safety Improvements

The working drawing contract was reported for FY 1986. The project was reportable for design and construction in FY 1987. It has been determined that the proposed scope of work exceeds available funds. The medical center has identified possible scope reductions to reduce the project cost. O/F, DM&S and the VAMC are jointly working to resolve this funding problem. The working drawing award is scheduled for June 1988 with a construction award scheduled for August 1989.

CHICAGO (WS), IL - Renovate Buildings 11A and 11B (Phase 2)

The working drawing contract was reported for FY 1986. This project was reportable for design and construction in FY 1987. It has been determined that the proposed scope of work exceeds available funds. The medical center has identified possible scope reductions to reduce the cost. O/F, DM&S and the VAMC are jointly working to resolve this funding problem. The working drawing award is scheduled for June 1988 with the construction award scheduled for June 1989.

CLEVELAND (BRECKSVILLE), OH - Fire and Safety Improvements

This project was reportable for construction in 1987. The working drawings are not completed. The A/E refused to incorporate asbestos abatement design into his documents due to liability concerns. The design is underway again and is due to be completed in April 1988. The construction award is scheduled for September 1988.

CLEVELAND (WADE PARK), OH - Fire and Safety Improvements

The project was reportable for construction in 1987. The A/E had to revise the working drawings due to the rephasing of the project. As such, contract documents could not be sent to SBA in time to make an award in FY 1987. The construction award is scheduled for May 1988.

REASONS FOR DELAYS ON REPORTABLE PROJECTS - (Continued)

COATESVILLE, PA - New Kitchen and Dining Hall

This project was reportable for construction in FY 1987. This project was originally scheduled as an 8(a) award. After unsuccessful negotiations with two 8(a) contractors, competitive bids were issued. They were opened on September 23, 1987. The low bid was $1 million over available funds. A congressional reprogramming was required, and a construction contract was awarded on November 20, 1987.

DURHAM, NC - Clinical Addition/Fire and Safety Improvements

This project was reportable for construction in FY 1987. Additional time was necessary to process a cost limit increase to add a magnetic resonance image unit, a fire alarm system, a hot water storage tank, mental hygiene, and medical administration service to this project. The cost limit increase was approved on April 3, 1987. The design is scheduled to be completed in June 1988 with a construction award anticipated in September 1988.

EAST ORANGE, NJ - Relocate/Consolidate Research

The construction award was reported for FY 1985, FY 1986 and FY 1987. The 8(a) contractor's proposal exceeded the project's budget. It was determined not to withdraw the project from the 8(a) program but to secure additional funds through the budget process.

HINES, IL - 180 Bed Psychiatric Facility

The project was reportable for construction in FY 1987. Bids were opened September 18, 1987. The low bid was approximately $2.5 million over the available funds. A cost limit increase of $2.2 million has been approved and the contract was awarded November 30, 1987.

LOS ANGELES, CA - Outpatient Clinic Building

The construction contract was reported for FY 1986 and FY 1987. The low bid exceeded our construction funding. A decision was officially made to cancel the original bid solicitation. The Inspector General recommended cancellation of the project. The Deputy Administrator decided on January 14, 1987, that the project would proceed. A revised conceptual design proposal was approved in August 1987 which reduces the space and brings the project within the available funds. The redesign is underway, and the construction award is scheduled for September 1988.

REASONS FOR DELAYS ON REPORTABLE PROJECTS - (Continued)

LYONS, NJ - Renovate Building 4/Intermediate Care

This construction contract was reported for FY 1986 and FY 1987. This was an FY 1985 delegated project which was delayed by development of delegation procedures. It was further delayed because the first and second selected A/E's declined to negotiate a working drawing fee within the 6 percent fee limitation. The design is now complete but the 8(a) contractor's fee proposal exceeds the budget by $1.5 million. A cost limit increase is in process. The construction contract is scheduled to be awarded in August 1988.

LYONS, NJ - Renovate Buildings 7 and 57

The Department of Medicine and Surgery has requested that the construction award be delayed until the nursing home currently under construction is completed. This was requested because there would not be sufficient patient care space if this project were started prior to activating the new nursing home which is scheduled to be completed in April 1988. This project may also need a cost limit increase. The construction contract is scheduled to be awarded in September 1988.

MARION, IL - Correct Seismic Deficiencies

The construction contract was reported for FY 1986 and FY 1987. Initial bid opening was $2.5 million over available funds. The project is being redesigned within the available funds. Revised working drawings were completed in December 1987. The construction award is scheduled for May 1988.

POPLAR BLUFF, MO - Electrical Distribution Systems

This project was reportable for construction in FY 1987. Bids were opened September 3, 1987. The low bid was approximately $1.7 million over the available funds. The project is being reviewed to determine if the VA should request a cost limit increase or whether we should redesign and rebid the project. The construction award is scheduled for September 1988.

SAN DIEGO, CA - Non-Structural Seismic Corrections

This project was reportable for construction in FY 1987. During design it was discovered that there was asbestos in the areas planned for construction. An industrial hygienist was hired to analyze the extent of asbestos. Funds in the amount of $14.5 million are requested in the FY 1989 budget to remove the asbestos. This asbestos must be removed before any of the elements in the interstitial spaces can be seismically braced.

REASONS FOR DELAYS ON REPORTABLE PROJECTS - (Continued)

SAN FRANCISCO, CA - 120-Bed NHCU

This project was reportable for construction in FY 1985, FY 1986 and again in FY 1987. This project consists of two phases: the Nursing Home Care Unit Phase and a Parking Structure Phase. The Parking Structure must be completed prior to the award and construction of the Nursing Home Care Unit Phase of the project. Bids were opened September 22, 1987, for the Parking Structure. The Parking Revolving Fund was used for funding; however, congressional concurrence was sought. The time frame did not permit a 1987 Fiscal Year award. The award for the parking structure was made in November 1987.

SHERIDAN, WY - New Outpatient/Clinical Addition

The construction contract was reported for FY 1986 and FY 1987. This project was reevaluated resulting from an IG audit. Review of MEDIPP Year 2000 data indicate a reduced workload. Redesign is scheduled for completion in August 1988, with a construction award anticipated for November 1988.

ST. LOUIS, MO - Remodel Building 53

This project was reportable for construction in FY 1987. The working drawings were completed in October 1987, and negotiations are proceeding with SBA for an 8(a) construction award scheduled for September 1988.

ST. LOUIS (JB), MO - Seismic Corrections

This project was reportable for construction in FY 1987. Bids were opened September 3, 1987. The low bidder claimed a bid error which delayed the award. The contract was awarded in November 1987.

TOGUS, ME - Clinical Improvements, Building 200

The project was reportable for construction in FY 1987. The completion of working drawings took longer than anticipated. Bids were opened and the low bid exceeded the budget. The contract documents are being modified to include only new construction with renovation work to be performed later. The construction award is scheduled for June 1988.

REASONS FOR DELAYS ON REPORTABLE PROJECTS - (Continued)

TUCSON, AZ - 120-Bed Nursing Home Care Unit

This project was reportable for construction in FY 1987. The lack of approval of the VA prototype prevented the start of the working drawings. A preliminary design which reflects the prototype was completed on July 31, 1987. A working drawing award was made in September 1987. The construction award is scheduled for December 1988.

WEST LOS ANGELES, CA - 117 Bed NHC Conversion

The construction contract was reported for FY 1986 and FY 1987. On April 11, 1986, the medical center requested that the project be delayed indefinitely until many major issues were resolved.

ACTIONS TO EXPEDITE AWARDS

Senator PROXMIRE. You provided information to us that contracts for 19 delinquent projects would be awarded in 1988; the remaining 10 are expected to be awarded in future years. What actions are you taking to expedite the award of contracts for the 10 projects not expected to be awarded before the end of this fiscal year?

Ms. LIVINGSTONE. Again, the action would be targeted to each specific instance, given the causal factor for those projects in which the design cost estimate is too high, we are trying to bring those back within available funds through rapid redesign, if at all possible. In some instance, we may request a reprogramming if a project does not look as if it can be redesigned to bring it within available funds. We very much share your interest in getting these projects out there and built, because a half-constructed building or no constructed building does no good at all for the Veterans Administration or for the veterans. So we look very closely at each of these projects and try to move them as quickly as possible.

BRONX CLAIM

Senator PROXMIRE. You are requesting $8 million in fiscal year 1989 to pay up to six contractors' claims arising from the Bronx hospital project. The phrase "up to six contractors' claims" seems somewhat vague. How many claims are we talking about here?

Ms. LIVINGSTONE. There are five settled claims and one, which is the sixth, pending before the Department of Justice. The original five claims were submitted to the VA in the amount of about $14 million. They have subsequently been settled, most of them just this last September.

We are now prepared to pay those. They were settled in the actual amount of about $4.35 million compared to the original $14 million that was submitted to the VA. Then we have interest costs plus an additional $532,000 claim that is still pending that has not yet been resolved with the Department of Justice.

Senator PROXMIRE. Why didn't you submit a reprogramming in order to avoid interest charges?

Ms. LIVINGSTONE. One of the claims was settled last June, and we had submitted a reprogramming request for about $2.5 million to Congress to fund that out of the working reserve. Subsequently, the remaining claims came in and were settled. We did not have sufficient funds in our working reserve to pay for all of those claims. Therefore, we submitted them in one package with a request for new budget authority. As I said, most of them were just settled last September 1987. One of the things that we feel would be most beneficial at some point would be to have a potential line item that would allow us to pay for these settled claims that then could be later reimbursed. That would help avoid the interest charges on these.

FIRE AND SAFETY

Senator PROXMIRE. You plan to spend $15 million on fire and safety improvements in fiscal year 1989. Last year's justifications indicate you would spend only $1.5 million on such improvements in fiscal year 1988, but this year's justification shows a budget of $13,746,000 for fire and safety improvements in the current fiscal year.

What has happened over the last 12 months to make you decide to shift such a large amount of money into fire and safety improvements?

Ms. LIVINGSTONE. Really, there is no one significant factor that caused that. We had two major construction projects that had significant fire/safety portions to them. They are scheduled for funding in fiscal year 1989, one in Leavenworth, Kans., and one in Beckley, W. Va. We fund these projects as a very high priority within the system.

Senator PROXMIRE. Pardon me. These are minor construction items.

Ms. LIVINGSTONE. In terms of the minor construction, excuse me, I thought you were speaking to the major construction aspect. In minor construction we had a significant reprogramming of funding in fiscal year 1987. This year we added funding to the fire and safety category. In fact, Mr. Neumann could expand on that, if you would like.

Mr. NEUMANN. Yes. We have a large number of fire and safety projects to be accomplished. They are our very top priorities, and we fund them as soon as possible. We have the minor appropriation to take care of them.

WOMEN AND MINORITIES' EMPLOYMENT

Senator PROXMIRE. Thank you, sir. Now, I just have one other item I would like to discuss before we conclude.

I want to discuss the agency's record at providing employment opportunities for women and minorities. Last year, you reported that as of September 30, 1986, 56 percent of your total permanent work force was composed of women, but only 26 percent of jobs at the GS–12 level and above were held by women. Although I am impressed with the fact that over half of your work force is composed of women, I am disappointed with the low percentage in GS–12 and above positions. What is the current percent of women holding jobs at the GS–12 and above level?

General TURNAGE. Mr. Chairman, I would like to provide the specific statistics for the record. However, let me suggest that there have been a number of things that have been accomplished, a number of initiatives, to increase that percentage.

You are correct that about 55 percent of the work force are women. Regarding the representation of women in the leadership program, we have emphasized the fact that we want to correct that situation. But more than just for women, we have had the same kind of emphasis in the employment of minorities. For example, about 25 percent of VA employees are in the black minority compared to 11.9 percent of the general population.

Moreover, not just minorities, but we have had the same kind of emphasis, for example, for the disabled, and I think that we reflect the standard for the government in the hiring of disabled in our system. So we have sensitivity to what you are suggesting, and I think we are making very specific progress.

Senator PROXMIRE. I think that Ms. Livingstone has indicated the excellence of your female employees. She has been very responsive, intelligent, and very impressively informed.

As of September 1986, minorities comprised 32.9 percent of the work force. Has your record changed in that area since last year?

General TURNAGE. I think it is slightly in excess of that, sir.

Senator PROXMIRE. You reported that only 16 percent of the GS–12 and above level jobs are held by minorities. What is the current level, and what are you doing to improve this low percentage?

General TURNAGE. Again, in the context as a whole relating to women and minorities and disabled, I would like to provide that for the record, sir.

Senator PROXMIRE. It is a contrast. Only half as many are in the upper levels in percentage as in your overall employees. You indicated in last year's hearing record that, and I quote, "Emphasis will be placed on both external and internal recruitment activities such as expanded target recruitment programs and upward mobility training programs." Can you tell us in specific terms what these external and internal recruitment activities are and how successful they have been in improving your record of employing women and minorities?

General TURNAGE. I would be glad to provide that, sir.

Senator PROXMIRE. Can you tell us what specific efforts are planned for fiscal year 1989?

General TURNAGE. In the selection of what is called Leadership VA, a program where we identify a number of our people for leadership in more responsible positions in the future, we did not delegate that down the line, but we made the Deputy Administrator, Mr. Harvey, responsible for that program. He has devoted the kind of interest consistent with his position in the agency to show the emphasis that we have on these matters.

Also in the Department of Medicine and Surgery, in the Department of Veterans Benefits, and across the VA, we have emphasized a selection process which would have those specific categories of people in consideration for higher jobs.

[The information follows:]

Women and Minority Employment

What is the current percent of women holding jobs at the GS-12 and above level?

The current percent of women holding jobs at the GS-12 and above level is 27.7 percent of the VA's permanent work force. This is, of the 29,215 positions GS-12 and above, women hold 8,099. This is an increase of 624 women at the GS-12 and above grade level over a one year period.

As of September 1986, minorities comprised 32.9 percent of the workforce. Has your record changed in that area since last year?

The percent of minorities has increased from 32.9 percent in September 1986 to 33.2 percent in September 1987. This is a net increase of 962 minority employees.

You reported that only 16 percent of the GS-12 and above level jobs are held by minorities. What is the current level, and what are you doing to improve this low percentage?

The representation of minorities in positions at GS-12 and above increased to 16.4 percent during the last year.

Can you tell us what specific efforts are planned for fiscal year 1989?

Although a formal Agency program plan has not yet been formulated for FY 1989, a continuing component of our program is outreach activities designed to attract and recruit qualified women and minorities. The Agency participates in major national, regional and state conferences sponsored by such organizations as Blacks in Government, Federally Employed Women, National Association for the Advancement of Colored People, American GI Forum and the Urban League. At these events, recruitment literature is disseminated to and employment opportunities as well as application procedures are discussed with, attendees.

The Agency also maintains a mailing list of women and minority organizations and colleges and universities with high concentrations of minority students. New and revised recruitment materials, including special vacancy announcements and a monthly bulletin of nationwide employment opportunities, are routinely distributed to the organizations on the list.

Another continuing outreach initiative is the VA College Liaison Program. VA field offices maintain relationships with placement and alumni officers and students through such activities as career days, job fairs and on-campus interviewing.

In addition, VA participates in a host of federal employment programs as a mechanism to attract, recruit and retain women and minorities. These include cooperative education programs at all educational levels, the Intergovernmental Personnel Act, the Stay-in-School Program, the Summer Employment Program, the Presidential Management Intern Programs, and the Part-Time Employment Program.

We will also continue internal efforts to advance women and minorities. When positions are vacated, managers are required to determine the best method of replacement from economical and EEO standpoints, e.g., at the full performance level or at a developmental level which may encompass upward mobility or "bridge" positions, that offer advancement opportunities to women and minorities. At the managerial level, the Agency will continue to take steps to insure good representation of women and minorities in candidate pools for key positions such as Associate Medical Center Director Trainee and for important developmental experience such as Leadership VA.

Senator Proxmire. Thank you very much, General, and I am very impressed by your testimony. I think you are an excellent witness, and you are doing a fine job. We are all proud of the VA. I think all Members of the Senate are impressed by the work that you do for our veterans. They certainly deserve it.

SUBMITTED QUESTIONS

[The following questions were not asked at the hearing, but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR PROXMIRE

JOB TRAINING PROGRAM

Question: Your budget justification shows that you intend to zero out the Veterans' Job Training program. You cite a decline in program activity as a reason for dropping the program. In fiscal 1987, 72,488 veterans applied for Veterans' Job Training but only 9,266 entered into job training programs. Doesn't this indicate that the demand for the program is high and, if so, what other programs exist that will meet the demand?

Answer: An appropriation for the Veterans' Job Training program for FY 1989 was not requested because of the improvement in the unemployment rate for veterans and the existence of other job training services.

The unemployment rate for veterans declined from 6.6 percent in September 1983 to 5.0 percent in February 1988. Also, the current unemployment rate of 5.0 percent for veterans is considerably lower than the current unemployment rate of 6.2 percent for the total population.

Titles IIA and III of the Job Training Partnership Act administered by the Department of Labor provides training and placement funds to educational organizations, unions, private industry councils and other groups to help economically disadvantaged adults and youths train for jobs and to aid workers who lose jobs because of plant closings and layoffs.

Question: The dropout rate for fiscal 1987 was 59 percent. Have you performed an evaluation of the program to identify the reasons for such a high dropout rate?

Answer: The most recent evaluation of the Veterans' Job Training Act program was conducted by a professional consultant group, Centaur Associates, Inc. The report by Centaur Associates, Inc., "Evaluation of the Veterans' Job Training Program," was published on September 24, 1986.

Question: (If so) What are the major reasons for dropout?

Answer: Centaur Associates, Inc. found that about 40 percent of the participants in the Veterans' Job Training program complete their training and 60 percent do not. Of those participants who do not complete their training, 25 percent leave to accept other jobs, 25 percent drop out because of dissatisfaction with the program, 30-40 percent are involuntarily terminated, and the remainder leave voluntarily for personal reasons (such as health problems).

VOCATIONAL REHABILITATION LOANS

Question: Page 1-42 of your budget justifications indicates a decrease of 100 in the number of Vocational Rehabilitation loans made. There has been a slight annual decrease in the number of loans made since fiscal 1986. Do you expect this trend to continue?

Answer: The decrease of 100 in the number of vocational rehabilitation loans is directly related to the anticipated decrease of 600 Chapter 31 program participants.

Any future change in the number of Vocational Rehabilitation loans will stem from a like change in the number of Chapter 31 program participants. As there appears to be a projected decline in the number of Chapter 31 program participants over the next few years it would be expected that the number of Vocational Rehabilitation loans would decline as well. Of course, any such trend will be dependent upon this change in the number of Chapter 31 program participants.

VETERANS INSURANCE AND INDEMNITIES

Question: You are requesting $9.2 million for Veterans Insurance and Indemnities, a decrease of $5.1 million from the current year. Last year's budget estimate included $2 million for payments to trust funds in 1988 while the current 1988 estimate is $3.5 million. According to your justifications, the reason for the $1.5 million difference is that actual hazard payments to the National Service Life Insurance trust fund were below their correct levels in both fiscal 1986 and 1987. How did this happen?

Answer: The transfers from the Veterans Insurance and Indemnities fund to the National Service Life Insurance fund to cover the cost of claims resulting from the extra hazards of military service are primarily accomplished automatically by computer transactions. In late 1987 a computer programming error was discovered whereby, under certain conditions, the amount being transferred was insufficient. The $3.5 million transfer in 1988 includes a one time adjustment of $1.2 million to compensate for prior deficient transfers caused by the programming error and $2.3 million which reflects the correct "normal" level of funding for 1988. Future transfers will slowly decline from the $2.3 million level.

Question: What steps are being taken to ensure this doesn't happen again?

Answer: The computer programming error which caused the problem has been located and corrected. In addition, the amount of the transfers is being monitored on a monthly basis.

Question: I understand you are proposing legislation that would transfer the Veterans Mortgage Life Insurance program from the Burial Benefits account to Veterans Insurance and Indemnity. Furthermore, your proposal includes transfer of the administration of the program from the commercial insurance company that currently administers it to the VA for a savings of $100,000. How did you arrive at this savings estimate?

Answer: The proposal to move VMLI to a completely in-house operation was the result of an audit by the Office of the Inspector General. The audit showed that the VMLI program, which is currently being administered under a contract with a commercial insurance company, could be more economically operated by the VA Insurance Program at significant savings. Under the terms of the agreement with the commercial company, the VA is responsible for policy service activities: adjudication, premium collections and determination of medical eligibility.

The commercial company's responsibility extends only to collecting direct pay premium accounts (1% of all accounts) and processing death claims (approximately 200 per year). The VA must reimburse the commercial company for all expenses, including administrative costs, state premium taxes and income taxes as well as pay a management fee of 1.5 percent on the total amount of premiums collected. It has been estimated that the minor role played in the administration of the VMLI program by the commercial company, which is currently costing the government over $100,000 per year could be absorbed by the VA at a cost of less than $6,000 per year.

SPECIALIZED FACILITIES -- OPEN HEART SURGERY

Question: We understand that you routinely monitor 8 non-VA hospitals which you contract with to perform cardiac surgery and that you plan to convert four of these facilities to in-house cardiac surgery programs.

Can you tell us how the costs of contract open heart surgery compare with the costs of in-house surgery?

Answer: The average cost for a contract open heart procedure is $17,000 compared with $12,000 which is the national average for an open heart procedure performed in-house.

Question: I assume that you are not paying your contract hospitals more than they would receive from the government if they were treating a Medicare patient for the same condition. Am I correct?

Answer: Yes. Please note that these cost figures include all hospital costs and physicians' and surgeons' fees.

Question: (If the VA does pay more) How much more, on the average, do you pay a contract hospital than they would receive under Medicare, and why doesn't the government have a uniform fee schedule for open heart surgery?

Answer: N/A

Question: Returning to the four contract hospitals that you plan to convert to in-house programs, what is the expected utilization rate for these four facilities and when will they be fully operational?

Answer: We anticipate that these four programs will be fully operational and will attain the volume requirement of 150 cases per year by fiscal year 1990, which will be within the three-year period allowed for development of new programs.

Question: Will any existing VA medical centers with cardiac surgery programs have their workload affected by the four new centers?

Answer: In some instances workload of certain programs will be affected but not to the extent that established programs will be jeopardized.

Question: We understand that you monitor information on the number of procedures and operative deaths for veterans that you refer to non-VA contract hospitals. However, you apparently do not monitor information regarding total hospital performance, including non-VA patient cardiac surgery results, is that correct?

Answer: Yes.

Question: How can you evaluate the adequacy of a hospital's open heart surgery program without monitoring total performance?

Answer: These are university hospitals with an affiliation agreement with one of our VA medical centers. Although we do not monitor the total university cardiac surgical program, that portion of the program involving VA patients provides us a significant sampling of the results of the entire program. Our primary interest is the outcome result of treatment of the VA patients. Excessive operative mortality of the VA patients triggers an investigation of that program with reference to the VA patients. Hence the monitoring is as effective as that conducted for our in-house program.

READJUSTMENT COUNSELING SERVICE

Question: How much are you planning to spend on Readjustment Counseling in fiscal 1989?

Answer: The plan is to spend $37,442,000.

Question: General Turnage, you are proposing a reduction of $4.7 million and 79 FTE in Readjustment Counseling. Your justifications indicate that utilization of the present program is expected to decrease. What evidence do you have that utilization is decreasing?

Answer: As indicated in the President's budget, this is based on the expected decreases in utilization. While utilization is not decreasing at present, it is expected.

Question: Please provide some documentation regarding the reduced use of readjustment counseling for the record.

Answer: The reduced use is based on a projection that utilization will decrease in future years, based on time elapsed since the Vietnam War.

RESOURCE ALLOCATION METHODOLOGY

Question: In Fiscal 1985, VA implemented the resource allocation methodology (RAM) to adjust medical centers budgets on the basis of work produced and the cost to produce it. Last year you indicated that even though some significant changes have been made in RAM, yearly productivity could be measured by the recommended allocations. Using this evidence, can you prove that RAM is increasing productivity?

Answer: As the word is commonly interpreted in the field of evaluative research, the term "prove" may be too strong in that we cannot conclusively document a cause/effect relationship between the RAM and increasing productivity. Since the introduction of the RAM for the FY 85 budget year, the calculations for which were based on FY 83 data, we have seen decreases in average length of stay, increases in the number of unique veterans treated, increases in RAM workload units (WWU's) per FTEE, and other measures of enhanced output in relation to the amount of resources consumed to produce this input. We cannot, in a scientific sense, quantify how much of this productivity increase is due to the RAM because there are a multitude of other factors which impact every output measure. For example, length of stay had begun to drop prior to FY 83. It would seem reasonable to assume that the extension of this trend after the introduction of the RAM continues to be due, in part, to whatever factors existed prior to FY 83, for example, high cost medical technologies which obviate the need for certain types of surgery and lengthy recuperation. Limitations of various sorts prevent us from attempting to say 25%, or 50%, or 75% of the decrease is a direct result of the RAM. On the other hand it would be unreasonable to deny that the RAM has had a beneficial impact on productivity although just about all trends of this type have natural limits and eventually level off. However, from FY 85 to FY 86 productivity continued to climb as measured by input/output relationships such as WWU/FTEE and various patient workload indicators such as the number of individual veterans treated.

Question: How do you monitor the many adjustments made to medical center budgets by headquarters and regional directors throughout the fiscal year to ensure that they do not compromise RAM?

Answer: The RAM is a central office management tool used to adjust medical care allocations through the regional directors to the facility directors. The RAM does not and cannot tell the regional or facility directors how to spend the money allocated to them. The VA has long practiced decentralized management in this regard and the introduction of the RAM has in no way modified this policy and philosophy. However, the RAM has been of great value to management at all levels because its supporting information systems and the improvements to these systems have made available not only new types of data but also new ways of looking at old data. These information systems to include the acute, long term, and ambulatory care patient data bases, the Cost Distribution Report, and numerous fiscal and service activity reports, allow management at all levels to monitor and take corrective action where necessary but none of this management activity is to counteract compromises of the RAM.

As implied by this question, the RAM is not subject to compromise because it is a resource allocation tool for central office, not a means by which to manage resource usage by the field.

Question: Last year you indicated that VA was initiating studies to assess RAM. You said that the studies would perhaps lead to modification of the existing models, creation of additional models, or grouping facilities for allocation purposes. When will the studies be complete?

Answer: In March 1987, the Department of Medicine and Surgery established a RAM Task Force for the purpose of studying and recommending changes to the VA case-mix resource allocation methodologies. Under the aegis of the RAM Task Force, a number of studies are under way on a wide range of issues. These issues include (1) doing away with the current method of compensating for the costs of medical education, the small unaffiliated gainer (SUG) facility RAM adjustment, and other such control mechanisms in favor of facility peer groupings, (2) new relative funding levels for the DRGs, (3) ambulatory surgery groups within the outpatient model and new models for (4) dialysis and (5) indirect costs. There are also, a number of other, relatively minor RAM elements under study and a private consulting firm is currently conducting research to arrive at conclusions as to why certain facilities are consistently either large gainers or large losers. All of these studies should be substantially completed by the end of 1988 after which there will be a period of review in order to develop implementation strategies and policies. Some of the changes emanating from these studies may require new information systems and this work will require an additional amount of time.

Question: [If they have been completed.] What changes do you plan to take because of these studies and what is your timetable for implementing these changes?

Answer: Some of these studies are completed, i.e. facility peer groupings, DRG weights. Assuming our research and development efforts bear fruit, under consideration are the use of RAM peer groupings and new DRG weights for the FY 89 Target Allowance process. Introduction of the ambulatory procedure groups, dialysis, and indirect care models are being planned for the FY 90/FY 91 budget years.

MEDICAL CARE -- FEE-BASIS PAYMENTS

Question: Your budget justifications indicate that you expect to pay for the treatment of about 24,700 inpatients at a cost of $142.6 million and pay for 1.8 million outpatient visits in non-VA facilities under the fee-basis program. Last year you said that VA was developing its own fee schedule to get better control over payments to these providers. The schedule is to be incorporated into the decentralized hospital computer program (DHCP). You indicated that software for VA's fee schedule would be delivered to the field by September 1988 and in use in the field by September 1989. Is the development of your fee schedule on target for delivery of services in September of 1989?

Answer: Yes, it is on schedule. We anticipate to have a fee schedule available for use in September 1989.

Question: (If not) What is the adjusted timeframe for implementation of VA's fee schedule.

Answer: N/A

Question: Do you have an interim fee schedule that could be utilized in order to avoid excess costs in this program until VA's own fee schedule is operational?

Answer: In the interim, VA Medical Centers are using the existing fee schedule. There is no practical way to adopt an interim schedule.

Question: I note that your initial estimate of patients to be treated in contract hospitals in fiscal 1988 was about 2,000 patients, or 8 percent higher than your current estimate. What accounts for this significant change in your contract hospital workload projection?

Answer: The current estimate of 24,765 patients treated, which represents a 7.2% decrease from the planned figure of 26,688 is based in part on the continued reductions in workload in Puerto Rico. Public Law 99-166 placed limits on obligations that could be incurred for contract care in the Commonwealth of Puerto Rico. Workload decreases related to this authority are expected to end in 1988. In addition to these mandated reductions, contract hospital workload in the contiguous states has also been on a decline.

MEDICAL CARE -- THIRD-PARTY REIMBURSEMENTS

Question: In January I received a report on reimbursements from third party health insurance carriers. The report stated that total collections for the program amounted to $23.95 million for fiscal 1987. $57.4 million remained outstanding at the end of fiscal 1987. A reason cited for a large amount of the difference between amounts billed and collected is that many older veterans are covered only by Medicare as a third party health insurance carrier. Due to statute, VA is unable to collect from these policies. General Turnage, can you tell me how many receivables, along with their dollar amount, are currently uncollectable because of this problem?

Answer: The VA is unable to collect from Medicare under the statute, not the supplemental policies. We do not have statistics on the amount of receivables that are uncollectible from Medicare supplemental policies, but we have had numerous comments from our field facilities that some carriers will not pay in the absence of a payment denial letter from Medicare.

Question: Has the VA given any consideration to recommending that the current statutory prohibition against collecting on Medicare policies be repealed?

Answer: No. However, a meeting was recently held between VA personnel and Health Care Financing Administration (HCFA) personnel on this subject. Plans are underway for an agreement stating that Medicare will pay nothing toward the VA bill and the Medicare Supplemental policies should consider this as a denial statement. This would put the responsibility for payment of the total bill with the Medical Supplemental Carrier. It is anticipated that this information will be provided to the VA from HCFA in the near future. This should increase the amount of collectables reported from the medical centers.

MEDICAL CARE -- DHCP

Question: You are requesting $29,380,000 in fiscal year 1989 for equipment as a part of your Decentralized Hospital Computer Program (DHCP) initiative.

On March 7th you submitted two reports on the program to the Committee in response to a Congressional conference report directive. One of those reports set forth an implementation schedule for the various modules by hospital.

I assume you have met your February 1988 schedule but as a quick check let me just ask if the lab chemistry modules are in place in Fayetteville, North Carolina, and Perry Point, Maryland?

Answer: Perry Point's lab chemistry module is in place. Fayetteville's lab chemistry module is ready to go live upon receipt of the physical links for the lab instruments. The connectors for these instruments were back ordered; current delivery status is imminent.

Question: Is the microbiology lab module operational in Hampton, Virginia?

Answer: The lab coordinator is completing file setup and plans to be operational by the first week in April, 1988.

Question: As you know, the conference report I referred to earlier directed you to maintain the commercially developed information systems (IHS) in place in three existing IHS hospitals. Apparently you may be considering switching systems in these three hospitals. Is this the case?

Answer: The VA believes that new IHS contracts may be necessary to upgrade Big Spring, Philadelphia, and Saginaw VAMC's computer systems so that they are comparable to the two new IHS systems. This is due to the fact that system changes and technological innovations envisioned for the IHS sites appear to go beyond the scope of the existing contracts and may not be addressable through re-negotiation. We have asked the Contracting Officer and the Office of General Counsel for an official ruling on the advisability of re-competing the contracts and expect to hear from them within the next 30 days. If recompetition is warranted, the Agency would have an opportunity to obtain a more cost-effective product which could result in net savings on the current IHS systems.

Question: How long would a hospital with an IHS system be without automation capabilities if the current contracts were cancelled?

Answer: If the existing IHS contracts were re-competed the current IHS sites would, depending upon the outcome of the competitive procurement, either 1) install the existing vendors upgraded IHS system or 2) install a new IHS system altogether. If the first scenario applied, the adjustment to the upgraded system would be minimal. If the second scenario applied, the transition would be more complex.

Regardless of the outcome of the competitive procurement, none of the IHS sites would experience any loss of hospital automation because a parallel phase-in approach would be used to facilitate the transition from one system to the next. A site-specific implementation plan would also be developed for the system conversion in order to minimize disruption within the medical center.

Question: How much time and money would be involved in removing current systems, awarding new contracts and installation of new hardware and software?

Answer: Due to the nature of a competitive procurement, it is not known how much time or money will be required in removing the existing IHS systems and replacing them with new IHS systems until after an award is made. Software removal, hardware de-installation, re-assignment of contractor staff, and training are but a few of the costs that may be incurred. Although the IHS contracts must be renewed on an annual basis, there are provisions in the contract that authorize the vendor to recover the cost of materials and staff resources committed to the site at any point that the system is discontinued. These costs will only be incurred if the Agency does not retain one or more of the current IHS vendors. In the event a current IHS vendor is unsuccessful in competing for a new IHS contract, a negotiated close-out agreement will be reached. The time required to remove one of the current IHS systems would depend in part upon the ability of the new vendor to install, orient, and begin operating the replacement IHS system. Although the installation of any new system is disrupting, a well designed implementation using a phased-in parallel approach can significantly minimize the disruption.

With regard to awarding new IHS contracts, we are proceeding along the lines of developing a procurement that combines the requirements of the existing three IHS sites with those of the two new IHS sites (to be established at tertiary care centers) in order to acquire 5 comprehensive IHS systems. The objective of this effort is to obtain systems that will meet the needs of medical centers through the next decade and in the process establish a permanent base for evaluating commercial products. This approach assumes that re-competition of the current IHS contracts is feasible. We are awaiting word from the Office of General Counsel on the advisability of re-competition. If re-competition is not possible, the procurement will only address the two new IHS tertiary care sites. In either case, we expect to release the RFP by the end of FY 88, and make contract award during the 3rd quarter FY 89.

Assuming that the existing IHS contracts are re-competed, the cost of the expanded IHS study will be approximately $14.4 million annually. These costs breakdown as $5.9 million for the 2 new IHS systems and $8.5 million for the current IHS systems.

Question: When will you install IHS systems in the two additional hospitals mentioned in the conference report?

Answer: The VA plans to install two new IHS systems at tertiary care hospitals during FY 89. The expanded IHS test will be used to test an innovative system that VA users and management will require in the 1990's and beyond. DM&S will be preparing a functionally oriented solicitation that combines the best features of the current IHS applications with those of DHCP, and also provides for examining and installing information system innovations that are not known at this time. The proposed procurement will require approximately 14 months to complete including; 4-1/2 to 6 months for a contractor to assist DM&S in developing functional specifications; two months to release an RFP; five months for prospective vendors to prepare proposals and for the VA to evaluate these proposals; and one additional month to award the contract. The VA projects the 4th quarter FY 88 for release of the RFP, and installation to begin in the 3rd quarter FY 89.

MEDICAL CARE -- REPAIRS TO FURNITURE AND EQUIPMENT

Question: Last year you requested $68,734,000 for repairs to furniture and equipment in your medical facilities in fiscal year 1988. This year's justifications indicate you will end up spending $79,055,000 for such repairs in 1988, an increase over your initial estimate of a whopping 15 percent.

Why was your initial estimate so wide off the mark?

Answer: The 1987 actual obligations of $68,803,000 for repairs to furniture and equipment were 4% over the 1987 estimate of $66,068,000, and 13% over the 1986 actual of $60,785,000. The initial 1988 estimate was increased to reflect 1987 actual experience and 1988 estimated costs. Obligation levels for the repair of furniture and equipment are increasing because of the increased cost of maintenance and repairs of all medical equipment.

Question: Maintenance and repair contractual services also will cost much more in 1988 than you initially estimated, about 16 percent more, to be precise. Can you tell us why?

Answer: The estimate for maintenance and repair (M&R) contractual services was increased to reflect 1987 actual obligations and 1988 estimated costs. The higher costs for M&R reflect the increased cost of maintaining medical facilities.

MEDICAL AND PROSTHETIC RESEARCH

Question: You are requesting $204,241,000 for medical and prosthetic research in fiscal 1989, an increase of $11,342,000 in your current appropriation. In fiscal 1988 the Department of Defense (DoD) will provide a one-time $15 million transfer for cooperative medical research projects that will be beneficial to both agencies. You plan to obligate $10 million in fiscal 1988 and $5 milliion in fiscal 1989. Can you tell us how you arrived at these allocations?

Answer: The obligation schedule for the $15 million in reimbursements scheduled to be received by the VA from the DoD will allow continued funding of research programs started in FY 1987 from the initial DoD transfer of funds and the new DoD/VA collaborative research started in FY 1988.

Although the President's Budget states that $15 million in DoD funding will be provided to the VA, it is noted that Section 251 of the National Defense Authorization Act for Fiscal Years 1988 and 1989 (Public Law 100-180) mandates that $20 million in DoD funds be made available for the DoD/VA Cooperative Medical Research program. It is also our view that Section 251 falls within the category of National Defense Authorization Act provisions incorporated in the last proviso of the DoD appropriation "Research, Development, Test, and Evaluation, Defense Agencies" which provides for full funding.

Question: What kind of research will you be doing with the money?

Answer: Attached is the list of projects supported as a result of the DoD transfer of funds.

ATTACHMENT A
DoD-VA COLLABORATIVE RESEARCH PROGRAM
PROJECT LIST FY 1987

500 ALBANY, NY

BARRON, KEVIN D., M.D.
Axon Reaction and Central Nervous System Regeneration

DENTINGER, MARK P., M.D.
Axon Reaction and Central Nervous System Regeneration

JOHNSON, ARNOLD, Ph.D.
Neutrophil-Endothelial Interactions and Lung Injury

506 ANN ARBOR, MI

MORRIS, HAROLD F., D.D.S.
Clinical Comparison of Base Metal Alloys vs. a Gold Alloy Used in the Fabrication of Fixed (Crown and Bridge) Restorations
A Five Year Clinical Evaluation of Alternative Crown and Bridge Systems

508 DECATUR, GA

BAKAY, ROY A.E., M.D.
Plasticity of the Neocortex and the Development of Epilepsy

512 BALTIMORE, MD

HOFFMAN, PAUL M., M.D.
Retrovirus Induced Neurodegeneration

JOHNSON, KENNETH P., M.D.
Acute, Latent and Persistent Virus Infection of the Central Nervous System

523 BOSTON, MA

JOHNSON, WILLARD C., M.D.
Comparative Efficacy of Vascular By-Pass Graft Materials in Lower Extremity Revascularization

525 BROCKTON, MA

FREEMAN, JONATHAN, M.D.
Epidemiology of Nosocomial Infections

JOSA, MIGUEL, M.D.
Venous Thromboembolism After Cardiac Surgery

527 BROOKLYN, NY

PLATICA, OVIDIU, M.D.
A New Technique to Detect the Agent(s) Causing Non A Non B Hepatitis

534 CHARLESTON, SC

OGAWA, MAKIO, M.D., Ph.D.
Normal and Malignant Hemopoiesis Assessed in Culture

PITTMAN, FRED E., M.D., Ph.D.
Studies of Intestinal Mucosa: Tissue Toxicity of Entamoeba histolytica

537 CHICAGO, (WEST SIDE), IL

HELLER, PAUL, M.D.
Hematology-Hemoglobinopathies Auto Immune Mechanisms and Immunoglobins-Control of Erytropoiesis Megaloblastic Anemia

539 CINCINNATI, OH

GIANNELLA, RALPH A., M.D.
Gastrointestinal Pathophysiology of Diarrheal Disorders

MYERS, RONALD E., M.D., Ph.D.
Development and Evaluation of a Swine Model of Stroke
Factors Influencing Brain Injury From Temporary MCA Occlusion

WAGNER, KENNETH R., Ph.D.
Brain Mitochondrial Membrane Injury Following Anoxia

541 CLEVELAND, OH

DEAL, E. CHANDLER, JR., M.D.
Airway Hyperreactivity and Changes in Breathing after Toxin Exposure

546 MIAMI, FL

MATERSON, BARRY J., M.D.
Monotherapy of Hypertension

549 DALLAS, TX

MCINTIRE, SARAH, Ph.D.
Genetics of Antibiotic Resistance Transfer by Neisseria Plasmids

554 DENVER, CO

BLASER, MARTIN, M.D.
Virulence Mechanisms of Campylobacter Species

BROWN, WILLIAM R., M.D.
Immunology of the Gastrointestinal Tract

558 DURHAM, NC

COBB, FREDERICK R., M.D.
Human Cardiovascular Function in Health and Disease

GREENFIELD, J. C., JR., M.D.
Human Cardiovascular Function in Health and Disease

HAMILTON, JOHN D., M.D.
Treatment of AIDS & AIDS Related Complex

WEINBERG, JOE BRICE, M.D.
Modulation of Hematopoietic Cell Differentiation and Function

YOUNG, STEPHEN L., M.D.
Metabolic Determinants of Lung Physiology

561 EAST ORANGE, NJ

DOWLING, PETER, M.D.
Neurologic Manifestations of HTLV-III Infection

570 FRESNO, CA

O'HARA, VINCENT S., M.D.
Spontaneous Pneumothorax

578 HINES, IL

LAWRENCE, ANN M., M.D., Ph.D.
Pituitary-Like Peptides in the Brain

580 HOUSTON, TX

DAVIS, VIRGINIA E., Ph.D.
Neurochemistry and Addiction Research Program

EVANS, DOYLE J., JR, Ph.D.
Receptors for Colonization Factor Antigens of Escherichia Coli

MUSHER, DANIEL M., M.D.
Infectious Disease Program

PRASAD, NARESH, Ph.D.
Potential Hazards of Magnetic Resonance Imaging on Male Reproduction

581 HUNTINGTON, WV

BELSHE, ROBERT B., M.D.
Studies on Respiratory Viruses

584 IOWA CITY, IA

ANDERSON, RICHARD A., M.D.,Ph.D.
Molecular Genetic Approaches to the Study of Common Disease Processes

BALLAS, ZUHAIR, M.D.
Cellular Immune Responses: Differential Regulation and Modulation

DENSEN, PETER, M.D.
Complement Deficiencies: Prevalence, Immunity and C8 Molecular Biology

LUND, DONALD D., Ph.D.
Parasympathetic Innervation of the Heart

SCHEDL, HAROLD P., M.D., Ph.D.
Intestinal Mucosal Calcium Transport Mechanisms and Regulation

586 JACKSON,MS

ADAMS, JUNIUS G., III, Ph.D.
The Structure, Function, and Synthesis of Variant Hemoglobins

BALAA, MARWAN A., M.D.
The Role of Leukotrienes in Mediating Ethanol Damage to the Gastric Mucosa

TURNER, HELEN R., M.D., Ph.D.
Analysis of Blastomyces Dermatitidis Antigens by Western Blotting with Immune Sera

589 KANSAS CITY, MO

PIERCE, GEORGE E., M.D.
Irradiation and Bone Marrow Transplantation for Induction of Tolerance

596 LEXINGTON, KY

COONROD, J. DONALD, M.D.
Studies in Pulmonary Infectious Diseases

599 LIVERMORE, CA

BRAUTIGAM, ALAN R., M.D., PH.D.
Sexual Transmission of Cytomegalovirus: Studies in the Murine Model

600 LONG BEACH, CA

WAYNE, LAWRENCE G., Ph.D.
Taxonomy, Physiology and Antigenic Composition of Mycobacteria

603 LOUISVILLE, KY

GARRISON, RICHARD N., M.D.
Microcirculation in Sepsis

MULLINS, RICHARD J., M.D.
Regulation of Skin and Muscle Microvascular Permeability During Sepsis

605 LOMA LINDA, CA

WERGEDAL, JON E., Ph.D.
Renal Prostaglandin Production in Cyclosporine Nephrotoxicity

607 MADISON, WI

SHUG, AUSTIN L., Ph.D.
Regulation of Metabolism During Ischemia

612 MARTINEZ, CA

REMLER, MICHAEL, M.D.
Prevention of Posttraumatic Epilepsy

614 MEMPHIS, TN

BEACHEY, EDWIN H., M.D.
Bacterial Pathogenesis Research Program

DALE, JAMES B., M.D.
Humoral and Cellular Immune Responses to Streptococcal M Protein

SOSKEL, NORMAN T., M.D.
Studies of Connective Tissues in Lung Injury and Repair

618 MINNEAPOLIS, MN

ALLEN, DAVID W., M.D.
Red Cell Membrane Changes in Hemolytic Anemias

COHN, JAY, M.D.
Vasodiliators Used in Chronic Heart Failure-II

626 NASHVILLE, TN

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VAMC Albany, NY KOEPPEN, ARNULF H. W., M.D.
DOD Uniformed Services Univ. of Health Sciences BORKE,ROSEMARY Ph.D.
Brain Hemosiderin

VAMC Albuquerque, NM SCREMIN, OSCAR U., M.D., Ph.D.
DOD Army Medical Research Inst. of Chemical Defense SHIN,TSUNG-MINK
Effects of Cholinesterase Inhibitors on Brain Metabolism and Blood Flow

VAMC American Lake, WA SILVERMAN, DAVID, M.D.
DOD Madigan Army Medical Center SMITH, STEVEN M.D.
Evaluation of a Geriatric Unit Serving Frail Elderly Surgery Patients

VAMC Bath, NY PRIZONT, ROBERTO, M.D
DOD Walter Reed Army Institute of Research FORMAL, SAMUEL, Ph.D.
Presence of Blood Group Glycosidases in Shigella Strains Containing a Large Plasmid Responsible for Virulence

VAMC Charleston, SC CANTEY, J. ROBERT, M.D.
DOD Walter Reed Army Institute of Research BOEDEKER, EDGAR M.D.
Mechanism of close Adherence of Escherichia coli to Gut Epithelial Cells

VAMC Columbia, MO VOLKERT, W.A., PH.D.
DOD Naval Hospital, Oakland CA DRESSER, THOMAS M.D.
99mTc-HMPAO Labeled leukocytes and Platelets: Basic and Clinical Studies

VAMC Miami,FL ISAACKS, RUSSELL E., Ph.D.
DOD Uniformed Services Univ. of Health Services BONGER,RALPH M.D.
Regulation of Blood Oxygen Affinity by Metabolites from Cardiac Myocytes

VAMC Denver, CO BROWN, WILLIAM R., M.D.
DOD Walter Reed Army Institute of Research MCQUEEN,CHARLES M.D.
Immunological Studies on an Enteroadherent E. coli Diarrhea Model

VAMC Durham,NC DAVIS, JAMES N., M.D.
DOD Uniformed Services Univ. of Health Sciences FEURSTEIN,GLORIA
Neurotransmitter Regulation of Ishemic Brain Damage

VAMC Durham, NC PATRICK, CLIFFORD, Ph.D.
DOD Walter Reed Army Hospital BROWN, HERBERT
The Natural History of Spinal Cord Injury

VAMC East Orange,NJ NATELSON, BENJAMIN H., M.D.
DOD Walter Reed Army Institute of Research HURSH,STEPHEN Ph.D.
Workload, Cognition & Entrainment of circadian Rhythms

VAMC East Orange,NJ SVED, ALAN F., Ph.D.
DOD Uniformed Services Univ. of Health Sciences HELKE,CINDA Ph.D.
Excitatory Amino Acid Neurotransmission in the Baroreceptor Reflex

VAMC Kansas City, MO JUSTESEN, DON R., Ph.D.
DOD Naval Aerospace Medical Research Lab OLSEN,RICHARD Ph.D.
Mitigation of Hypothermic Insult by RF Radiation

VAMC Livermore, CA BRAUTIGAM, ALAN R., M.D., PH.D.
DOD Armed Forces Radiobiology Research Inst. SWENBERG, C.E. Ph.D.
Quantitation of Cellular Repair of Adenovirus DNA Double-strand Breaks

VAMC Long Beach, CA WILSON, RICHARD H., Ph.D.
DOD Naval Submarine Medical Research Lab MARSHALL,LYNNE Ph.D.
Psychophysical Procedures for Auditory Measures with Naive Subjects

VAMC Louisville, KY CHANGARIS, DAVID G., M.D.
DOD Tripler Army Medical Center CLAYBAUGH, JOHN Ph.D.
Alternate Pathways for the Release of Vasopressin

VAMC Loma Linda, CA BONNET, MICHAEL H., Ph.D.
DOD San Diego Naval Hospital SPINWEBER, CHERYL
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VAMC Minneapolis, MN MOLDOW, CHARLES F., M.D.
DOD Uniformed Services Univ of Health Sciences RICK, Paul Ph.D.
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VAMC Palo Alto, CA MEYER, TIMOTHY W., M.D.
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VAMC Pittsburgh (UD),PA SAX, MARTIN, Ph.D.
DOD Army Medical Research Inst. of Infect.Dis. CRUMINE, MARTIN
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VAMC Portland, OR ANSEL, JOHN C., M.D.
DOD Walter Reed Army Medical Center MELTZER, MONTE M.D.
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VAMC San Francisco, CA GERTZ, EDWARD W., M.D.
DOD Naval Health Center RIEDY, MARK Ph.D.
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VAMC San Francisco, CA KIM, YOUNG S., M.D.
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VAMC San Diego, CA KRIPKE, DANIEL F., M.D.
DOD Naval Health Research Center NAITOH, PAUL, Ph.D.
Bright Light Amelioration of Shift Work

VAMC San Antonio,TX BOLDT, DAVID H., M.D.
DOD Brooke Army Medical Center BROWN,THOMAS M.D.
Treatment of Malignant Gliomas with LAK/IL-2

VAMC San Antonio,TX HECKMAN, JAMES D., M.D.
DOD Wilford Hall Medical Center EBLER, WILLIAM, D.V.M.
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VAMC San Antonio, TX PUGH, JACQUELINE, M.D.
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VAMC San Antonio,TX SCHENKER, STEVEN, M.D.
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VAMC Seattle, WA DEYO, RICHARD, M.D.
DOD Madigan Army Medical Center LEDNEY, WAYNE Ph.D.,M.D.
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VAMC Seattle, WA LANGDALE, LORRIE A., M.D.
DOD Madigan Army Medical Center HARTMAN, KIP M.D.
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VAMC Washington, D.C. HARMON, JOHN W., M.D.
DOD Uniformed Services Univ of Health Sciences BATZAIR, SAMUEL Ph.D.
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VAMC Wadsworth, CA WALSH, JOHN H., M.D.
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EXECUTIVE VACANCY

Question: General Turnage, I understand that you have been criticized for an eight month delay in naming a new deputy assistant chief medical director for prosthetics services, research and development. Have you submitted a candidate to the White House for approval?

Answer: No. The Administrator has authority to appoint someone to the position. At this time, I would like to share a brief summary with you on how the solicitation for candidates was undertaken. Last July, a Search Committee was formed to begin recruitment for this position. In addition to announcing the vacancy throughout the VA system, over 100 letters were sent to medical schools, Veterans Service Organizations, and national rehabilitaton centers, to solicit nominations for this position. This process produced names of about a dozen potential candidates and subsequently, three individuals expressed interest in being interviewed for the position. One of the prospective candidates withdrew shortly after being interviewed. Of the two remaining candidates, one of the individuals has been recommended to the Chief Medical Director and Administrator for appointment.

Question: When do you plan to have the position filled?

Answer: It is anticipated that this position will be filled in two weeks.

MAMOE -- AIDS PROGRAM OFFICE

Question: General Turnage, you are requesting $47.9 million for Medical Administration and Miscellaneous Operating Expenses (MAMOE) an increase of $1.28 million over fical 1988. Your request includes 4 FTEE and $260,000 to establish an AIDS Program Office. If this Office is funded, when will it open?

Answer: The establishment of the AIDS Program Office was approved January 7, 1988. In July 1987 the Chief Medical Director established an AIDS Working Group by detailing 4 FTEE from DM&S staff to this temporary assignment. A fifth was later assigned because of the workload. The AIDS Working Group was charged with determining the need for a permanent program office and so recommended. Their recommendation was accepted by the Chief Medical Director. The Office is currently functioning with a staff of four: M.D. Director, Ph.D. Deputy Director and two Program Assistants. A Ph.D. Nurse Epidemiologist has been recruited and will join the staff on March 27, 1988.

Question: A function of the AIDS Office cited in your justifications is to implement an improved method for the distribution of adequate funding to the VA medical centers treating AIDS patients. What method is currently being used to distribute funds to medical centers treating AIDS patients?

Answer: There are 131 VAMCs which have reported treating patients with AIDS. These medical centers are reimbursed under the Resource Allocation Model (RAM) according to the Diagnostic Related Group (DRG) responsible for admission to the medical center, i.e., pneumonia, encephalitis, malignancy, etc. The outpatient costs are reimbursed on an established per visit basis. However, there is agreement that the costs of care exceed these routinely established reimbursement rates. Additional funding was provided to seven VAMCs in FY 1987 and ten VAMCs in FY 1988 on a prorated basis. These were the medical centers hardest hit by the AIDS epidemic. A special subcommittee of the RAM Task Force has been studying the best way to adequately cover the costs of AIDS care and their preliminary recommendations are currently under study.

Question: Can you tell us what kind of changes will be made in the way AIDS funds are distributed?

Answer: The extent of the changes has not yet been determined. However, it is anticipated that all medical centers with significant numbers of AIDS patients under treatment will need to receive special funding on a per capita basis.

Health Professional Scholarship

Question: You are requesting $7,137,000 for the Health Professional Scholarship Program. I understand that the program is used to attract nursing students. A recent VA news release indicates that recipients will be provided a stipend of $621 a month plus tuition and educational expenses. That seems to this Senator to be an unusually high stipend. How did you arrive at this amount?

Answer: The stipend is based upon 38 U.S.C. 4142(f)(1)(B). In 1982, the first award year, the monthly stipend was $555 per month; 1983-$577; 1984-$600 and 1985-$621. The 1988 stipend amount in the VA news release shows no increase over the 1985 stipend.

Question: What is the average scholarship amount awarded to third and fourth year students.

Answer: The average amount awarded to a third year student is $30,325 and $14,800 to a fourth year student.

SURVEY OF HEALTH CARE OCCUPATIONS

Question: I understand that as part of a total strategy for remedying current staffing shortages and avoiding future shortages you are in the process of completing a second Survey of Health Occupational staff. You indicated to the Senate Veterans' Affairs Committee two weeks ago that a preliminary report on high demand occupations, such as nurses, will be available this month. Is the preliminary report complete?

Answer: A Preliminary Report of the 1987 Survey of Health Occupational Staff was completed and issued by the Office of Personnel and Labor Relations on February 23, 1988. The report covers nurses, pharmacists, physical therapists and occupational therapists.

Question: [If so] What are the findings?

Answer: Similar to the FY 86 survey results, the FY 87 findings indicate variances in the severity of facilities' recruitment and retention problems. The overall data show that the number of registered nurses, nursing assistants, and occupational therapists employed as of September 30, 1987, decreased, while the number of full-time pharmacists, physical therapists, and licensed practical/vocational nurse increased. Comparisons of data by nine representative geographic areas for each occupation indicate:

Registered Nurse - Turnover rates and vacancy rates have generally increased. Vacancy rates have increased in all areas except Chicago and Northern California.

Licensed Practical/Vocational Nurse - Turnover rates have increased and vacancy rates range from very high in New York City (extended) to low or negative in the Texas area.

Nursing Assistant - Turnover rates have generally increased. Vacancy rates range from increased in some areas and decreased in others.

Pharmacist - Turnover rates are showing a general trend toward decreasing. Vacancy rates have decreased in all areas.

Physical Therapist - Turnover and vacancy rates have generally increased.

Occupational Therapist - Increases in turnover and vacancy rates were reported in a number of areas.

Question: Does the report indicate that the Health Professional Scholarship Program is the best method of recruiting and retaining nurses and physical therapists?

Answer: The report does not address the best methods of recruiting and retaining health occupations.

Question: What other recruitment efforts are being pursued to attract the high demand professionals?

Answer: The Department of Medicine and Surgery views its recruitment and retention problems from the perspective that an integrated approach will best serve to address the difficulties being experienced on a near-national basis in a number of occupational categories. A number of actions have been pursued or are in process and are viewed as part of a total strategy for remedying current staffing shortages and avoiding future shortages. Within this context, the following efforts are being pursued:

- Approximately 555 Special Salary Rate authorizations had been granted at 149 facilities through January 30, 1988. These include authorizations for Registered Nurses, Pharmacists, Physical Therapists, Licensed Practical/Vocational Nurses, Radiology Technicians, and others.

- Authority was delegated to facility directors on October 13, 1987, to approve Saturday Premium Pay when needed for recruitment and retention of nurses. Use of this benefit had previously required VA Central Office approval.

- The Office of General Counsel affirmed in October 1987, that the Administrator may, in the interest of recruitment and retention, pay overtime to nursing and certain other T.38 personnel at rates in excess of 1.5 times the actual hourly rate and without regard to the Intermediate Grade/Step 1 cap. This affirmation offsets the need to request a General Counsel opinion on this subject as had been recommended by the Recruitment and Retention Task Force.

- The Tuition Support Program was initiated in FY 1987 and approximately $2.5 million in support was provided from the appropriated base to more than 8,900 employees in 15 occupations, but the majority went to nurses. In 1988, the Congress provided $5 million for this program to support an estimated 17,000 employees. $10.1 million is requested in the President's 1989 Budget to support an estimated 33,000 employees.

- Funding was sought and appropriated for the Health Scholarship Program. The FY 1988 budget authorizes $7.0 million for this program and the President's 1989 Budget requests $7.137 million.

- In addition, the VA has requested legislative authority to broaden the occupational coverage of the Scholarship Program to include physical therapists and other direct health care personnel. This legislation was also recommended by the Task Force.

- Legislation, supported by the agency, is pending that will enable the VA to pilot test various alternative pay, personnel management, and benefits practices in the interest of improving its competitive recruitment and retention stance, particularly in the health care community. The Task Force report recommended similar legislation.

- Guidance in the form of a DM&S Circular now undergoing agency review, has been developed to provide specific information to field facilities on the establishment of not-for-profit, and on a less expansive basis, for-profit, child care centers. This guidance explains the statutory authority for the provision of space by the VA, as well as requirements for ensuring that enrollment priority is given to children of VA, other Federal Government, and affiliated university employees. The Recruitment and Retention Task Force specifically recommended the issuance of such guidance, as well as the investigation of expansion of the authorities impacting child care centers.

- A variety of regional and local initiatives are being monitored for "export," as appropriate, throughout the system. These efforts are being formalized into a clearinghouse function, recommended by the Task Force, that will serve to ensure the broadest dissemination of information possible.

- Preliminary discussions have been held with various agency personnel, and general inquiries have been made about available outside services, with respect to the development of an Agency Image Building Campaign, as recommended by the Task Force.

- The second Survey of Health Occupational Staff has been conducted and the full report is expected to be completed in approximately 60 days. The data will be used to assist in the evaluation of recruitment and retention trends throughout the Department and will assist in the development of the expanded data base, recommended by the Task Force, to assist in the analysis of staffing and potential shortages.

- The 24 recommendations in the Preliminary Report of the Recruitment and Retention Task Force have been analyzed, and approximately 150 initial steps for implementation identified. These steps define the first actions necessary for implementation of the recommendations. The identified implementation steps are currently being formulated into an Action Plan that will identify responsible officials and a tentative timetable for implementation of each action. The Plan requires input from Departments and Staff Offices throughout the Agency to ensure that all action items and resources needed are identified.

GENERAL OPERATING EXPENSES
Modernization Program

Question: Your request for General Operating Expenses is $771.3 million, an increase of $8.5 million over the current year. General Turnage, I'd like to know more about the modernization initiative in the Department of Veterans Benefits (DVB). In October 1987 GAO reported that the Department of Veterans Benefits had not developed basic information needed to support its investment decision. GAO recommended that DVB develop specific measurable goals and objectives to assess program process. When will this recommendation be implemented?

Answer: In September 1987, DVB developed a Twelve Point Plan which provides a broad umbrella for continuing to improve and expand DVB's information capabilities in office automation; enhances DVB systems which support delivery of veterans benefits and services; and provides the organizational and human resources necessary to support DVB's improved information systems environment.

The plan consists of twelve tasks divided into two phases. In Phase I (tasks 1-8), DVB will analyze and document functional requirements and examine alternative solutions for meeting these requirements. Phase I provides DVB with a means of identifying both short-term and long-term improvements. In Phase II (tasks 9-12), DVB will complete tasks necessary to implement the alternative selected in Phase I. (See answer to question 584 for timetable)

To date, DVB has completed the first two major tasks in the Twelve Point Plan. First, the Department defined specific Department goals and measurable objectives which provide the overall framework for subsequent tasks leading to improved and expanded information management for the Department. Second, DVB defined the anticipated conditions and circumstances under which the improvement program will be developed and executed.

Question: A second recommendation made by GAO was that the Department of Veterans Benefits should analyze the costs and benefits of alternative approaches to determine the best modernization strategy. What is the timetable for completion of this analysis?

Answer: The Department has identified and evaluated potential short-term improvement opportunities (task 5b) which could provide a significant return on investment and can be implemented in a short time frame. Short-term initiatives under evaluation include automation of functions not currently automated and reexamination of what is automated for ways to improve efficiency and effectiveness, both in the delivery of benefits and in the management of resources. DVB will complete the cost-benefit analysis for all the identified short-term initiatives shortly. Management decisions for implementation of specific projects will be made when the cost-benefit analyses are completed. The cost-benefit analysis for the longer term modernization projects will be included as part of the alternative analysis scheduled for completion in late 1989.

Question: When you have developed a goals and objectives timetable, will you submit it to the Committee?

Answer: Attached is the timetable to support DVB's Twelve Point Modernization plan. To date, we have completed Tasks 1 and 2. Our 1988 plans include completion of Tasks 3 through 7. The following description offers a more detailed explanation of the Twelve Point Modernization Plan.

The Department is currently adhering to the strategy outlined in the Twelve Point DVB ADP Modernization Plan, which was developed to provide a long range planning focus for improving DVB program delivery systems. The plan consists of twelve tasks divided into two phases. In Phase I (tasks 1-8), DVB will analyze and document functional requirements and examine alternative solutions for meeting these requirements. To date, DVB has completed the first two major tasks in the plan. First, the Department defined specific Department goals and measurable objectives which provide the overall framework for subsequent tasks leading to improved and expanded information management for the Department. Second, DVB defined the anticipated conditions and circumstances under which the improvement program will be developed and executed.

During this fiscal year, the Department has begun work on specific milestones and activities which are part of subsequent tasks in the Twelve Point Plan. Such work includes identification and documentation of current manual and automated work processes and the associated cost of doing business (task 3). This information will be used in identifying a baseline to judge the improvement of DVB operations, as well as providing programmatic functional information which will be used in documenting the Department's functional requirements.

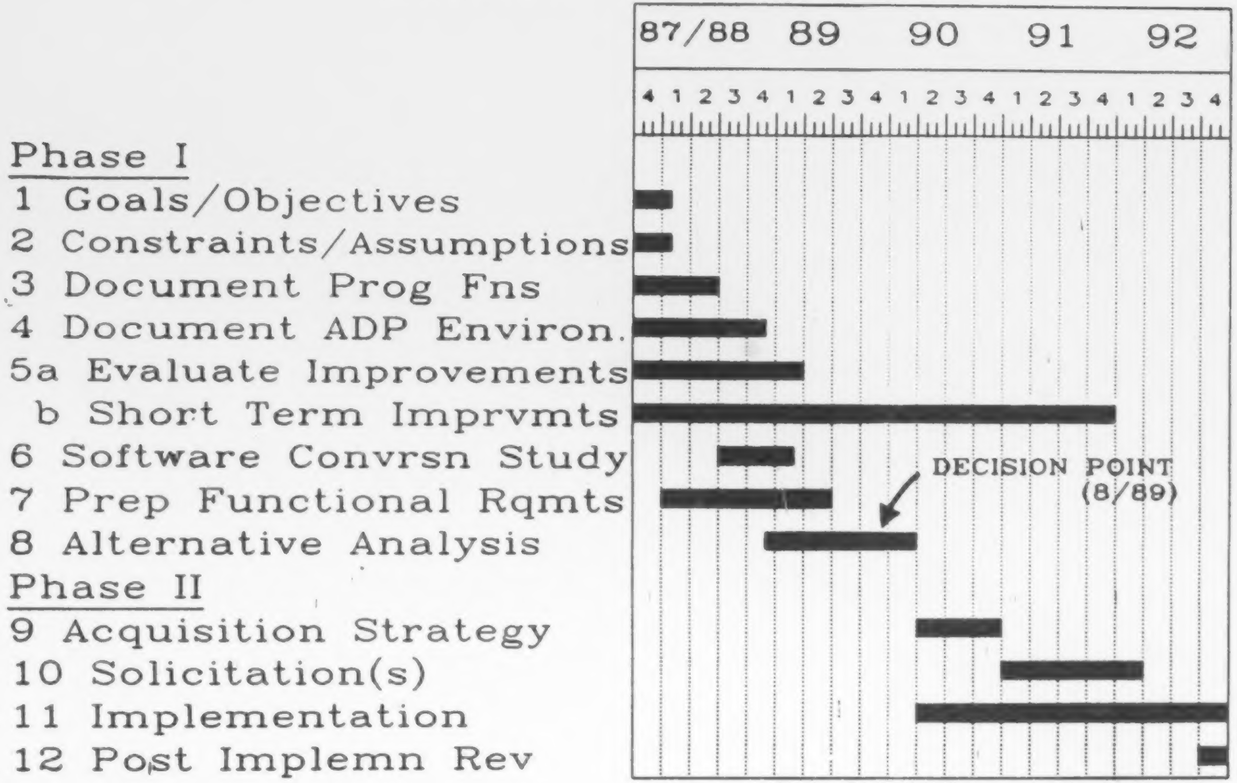
DVB has begun to document and evaluate the current ADP systems environment (task 4). This analysis will identify potential technical improvement opportunities and document the environment for the overall requirements document in a later task. The evaluation includes an inventory of hardware and software currently in place, an analysis of security and telecommunications functions and documentation of data and data administration needs.

The cost of converting software, database and telecommunications interfaces from vendor dependent applications (task 6) to other vendors will be documented beginning this year. Based on the software inventory (task 4) current software will be divided into logical, discrete modules for conversion evaluation. Costs will be identified to convert each module so that in the subsequent task of alternative analysis, conversion costs associated with each alternative will be isolated.

A complete functional requirement definition (task 7) will be developed for a DVB integrated benefits delivery network. This will identify and analyze the alternative solutions.

Beginning later this calendar year, technical and functional designs (task 8) will be identified, evaluated and selected that best serve the interest of the DVB organization. Each alternative will be evaluated against a defined set of criteria. Once an alternative is selected, a general implementation plan will be developed to address resources and strategies for acquisition and transition to the new system.

DVB MODERNIZATION
General Schedule



GENERAL OPERATING EXPENSES

Question: General Turnage, you are requesting $24.98 million for the Office of Budget and Finance, an increase of $4.57 million over your current year estimate. Your request includes $2.9 million and 4 FTE to begin the development of an automated Financial Management System. When was your current financial network installed?

Answer: VA's 41 existing financial systems use 20 year old technology. Not all systems were developed at the same time, but rather have evolved over the years as VA programs have been added and evolved. It is fair to say we do not presently have a "network" of financial systems and that is one of the shortfalls the requested Financial Management System will correct.

Question: What will be the total cost of developing a new Financial Management System?

Answer: Total development costs for the Financial Management System when completed in FY93 will be approximately $11,170,000.

Question: I assume you have conducted a benefit-cost study to justify your investment in a new system. Can you tell us what benefit-cost ratio that study came up with?

Answer: The Financial Management System is required to allow the VA to better comply with the Federal Managers' Financial Integrity Act and GAO's Title 2 Accounting requirements. This need was reinforced by GAO's audit of VA's first attempt to prepare a consolidated Agency financial statement in FY87. In addition, Price Waterhouse is presently preparing a cost-benefit study which is scheduled for completion on April 11, 1988.

GENERAL OPERATING EXPENSES - LEASING OF COMPUTERS

Question: General Turnage, your General Operating Expenses budget includes a request of $15.6 million for the lease of computer equipment, an increase of $4 million over current year costs. That's an increase of over 34 percent! Frankly, I'm surprised at the increase in lease costs because we have provided VA with substantial funding for the purchase of ADP equipment in the past. Why isn't this equipment being purchased rather than leased?

Answer: From 1986 through 1989, the Office of Information Systems and Telecommunications has spent, or plans to spend, $8.4 million for the purchase of computer equipment. Of this amount, $6.2 million is being expended in support of the VA's nationwide telecommunications network (VADATS). We have chosen to lease certain equipment, primarily office automation equipment and systems at the Austin Data Processing Center (DPC), to avoid purchasing equipment which can very quickly become obsolete. The $4 million increase includes approximately $2.4 million for planned upgrades at Austin, $0.4 million for inflation, and $1.2 million for the annualization of new Fiscal Year 1988 leases.

Question: Can you tell us what standards you use in deciding that equipment should be leased rather than purchased?

Answer: It is our policy to purchase equipment rather than lease (VA Acquisition Regulation 870.108-1), however, equipment may be leased when it can be shown to be in the best interest of the VA. For example, leases may be used when equipment is likely to become obsolete, or when the equipment will only be used for a limited period of time.

Question: One of the justifications you give for an increase in computer lease costs is inflation. It was my impression that computer hardware costs are declining. Am I wrong?

Answer: It is generally true that hardware costs are declining per unit of computing power, however, inflation is still a factor, and must be accounted for when budgeting for annual lease and maintenance contracts. In our proposed Fiscal Year 1989 budget we used the standard Government-wide consumer price index inflation factor of 3.5% (a total of $0.4 million of the $4 million increase).

Question: You indicate that another factor contributing to an increased computer lease budget is the annualization of costs for equipment installed in 1988. How much of your increase is attributable to annualization?

Answer: During Fiscal Year 1988, we plan to lease additional equipment at a total cost of $0.5 million. For Fiscal Year 1989, that equipment will be installed for the full year, at a total cost of approximately $1.7 million, therefore, the increase due to annualization in Fiscal Year 1989 is $1.2 million.

DEPARTMENT OF MEMORIAL AFFAIRS

Question: You are requesting $47,364,000 for your Department of Memorial Affairs in 1989, an increase of only $300,000 over your current budget.

Although this sort of budget restraint is admirable, I notice you added 16 positions to your initial 1988 budget estimate. Can you tell us why your initial average employment projection turned out to be a bit low?

Answer: The initial FTEE level requested by the Department of Memorial Affairs was considered to be sufficient to meet projected workload requirements. The additional 16 FTEE added to the Department of Memorial Affairs' FY 1988 budget estimate were provided by Congress as part of the Department of Housing and Urban Development-Independent Agencies Appropriations Act, 1988.

Congress provided this increase in staffing to directly support the continual increases in national cemeteries' workloads. Sufficient resources are provided in both FY 1988 and 1989 to support the additional positions.

QUESTION - MAJOR PROJECTS - HOUSTON

Question: Apparently, you hope to save almost $25 Million in the cost of the Houston replacement hospital. The current cost estimate is $220 Million. Are these savings attributable to the construction industry in Texas?

Answer: Yes. The generally depressed local market conditions during the bidding period for the Houston replacement project resulted in the savings.

CONSTRUCTION - MAJOR PROJECTS - ALLEN PARK, MI

Question: I note that the price tag for the Allen Park replacement hospital has fallen from $194,763,000 to $185,800,000 over the past 12 months. This is good news for the taxpayer. Can you tell us why this major project has gotten less expensive?

Answer: The current total estimated cost of the new downtown Detroit VA Medical Center has been revised from $194,763,000 to $185,800,000, as the result of a further reassessment of the project scope utilizing the most current patient care/work load data.

CONSTRUCTION, MINOR -- OBLIGATIONS

Question: You are requesting $123,881,000 for minor construction projects in fiscal year 1989, an increase of $7.9 million over your current appropriation.

I note that your obligation rate estimate for 1988 has jumped from $134 million in last year's justifications to $185.7 million in this year's justifications. Although I'm glad to see that you're moving forward more rapidly than you initially projected, I'd like to know why your initial obligation rate projection was off by about $50 million.

Answer: The $51.6 million difference between last year's justifications and this year's justifications can be attributed to: (1) obligations expected to be made in FY 1987 that slipped into FY 1988 ($30.4 million) and (2) additional obligations expected due to management improvements in the minor program ($21.2 million). The $185.7 million estimate in this year's budget was based on the preliminary operating plan. It is anticipated that the minor obligations in FY 1988 will be within ten percent of this figure.

CONSTRUCTION, MINOR - PURCHASE AND HIRE

Question: I notice that your 1988 average purchase and hire employment under the "construction, minor projects" account has increased from a budget estimate of 75 positions to a current estimate of 140 positions and that the level is projected to increase by another 10 positions next year. Can you tell us why average employment is increasing so rapidly in this area?

Answer: Average employment is increasing rapidly due to medical centers using purchase and hire labor to minimize the impact of construction activities on their medical operations. Many critical medical procedures cannot be suspended to match normal construction schedules. The use of purchase and hire employees provides medical centers with better control and flexibility. This method has often proven beneficial since it minimizes the possibility of construction delays.

GRANTS TO THE REPUBLIC OF THE PHILIPPINES

Question: General Turnage, as you know, each year we generally appropriate $500,000 for the maintenance and upkeep of the Veterans Memorial Center, Republic of the Philippines. This is done with Grant-in-Aid Funds. I understand you plan to use part of the Fiscal Year 1988 appropriations for office equipment and a telephone system. How much of the $500,000 will be spent on these items and how do you justify this expense?

Answer: FY 87/88, Grant-in Aid funding for the Veterans Memorial Medical Center (VMMC) includes $150,000 for a replacement telephone system. The present system is 30 years old and the majority of it does not work. Many wards, for example, cannot communicate with basic support services such as a laboratory and x-ray. An additional $9,676 is being provided for replacement of office equipment, all of which is 10 to 20 years old. Section 632 of Title 38 does does not preclude expenditure for either of these efforts.

The determination of how the $500,000 is utilized is based on recommendations made by the management of the VMMC to the management of the VA Regional Office/Outpatient Clinic. Priority is given to medical care equipment and the facilities used to house U.S. veterans. The second priority is all other equipment having to do with patient care and the rehabilitation of the facility. All administrative equipment has the lowest priority and is only considered when other identified needs have been met or when remaining funds are of a minor nature as to preclude procurement of major items.

Question: How do you plan to spend the requested Fiscal Year 1989 Appropriation of $500,000?

Answer: Recommendations for expenditure of FY 89 Grant-in-Aid funds are not due to the management of the VARO/OPC until July 31, 1988. We will be pleased to furnish a report on how these funds will be used upon completion of the review process.

QUESTIONS SUBMITTED BY SENATOR SASSER

TENNESSEE PROJECTS

Question: Please provide for the record an update on the progress of the Bed Towers/Renovation project at Mountain Home, Tennessee and the Nursing Home project at Murfreesboro, Tennessee, including dates for milestone events (e.g., contract award for planning and construction, ground breaking, dedication, and occupancy) and the number of new employees to be associated with this new facility.

Answer: $70,300,000 was appropriated for the Bed Towers/ Renovation project at Mountain Home, Tennessee. The Bed Towers portion of this work is about 40% complete. The projected schedule is as follows:

	Bed Towers	Renovation
Complete Design	12/17/85 (Actual)	10/88
Award Construction	04/29/86 (Actual)	03/89
Groundbreaking	Not Applicable	Not Applicable
Complete Construction	06/89	09/90
Dedication	10/89	N/A
Occupancy	10/89	12/90

A total of 134 new employees are expected to be associated with this project.

A $4,980,151 construction contract was awarded on June 22, 1987, for the 120-Bed Nursing Home Care Unit at the VA Medical Center, Murfreesboro, Tennessee. Construction of the nursing home is about 15% complete. The projected schedule is as follows:

Groundbreaking	11/87 (Actual)
Complete Construction	04/89
Dedication	06/89
Occupancy	06/89

A total of 70 new employees are expected to be associated with this project.

Question: Please provide me similar information regarding the $42 million renovation and improvement of the VAMC in Nashville, Tennessee.

Answer: The contract to provide the preliminary plans and cost estimate for the Patient Privacy and Clinical Improvements Project, Nashville, Tennessee, was awarded on August 9, 1985, to the A/E firm of Hart-Freeland-Roberts, Inc., of Nashville, Tennessee. The projected working drawing contract award date is June 1988. The projected construction contract award date is September 1989, and construction completion is March 1992. It is estimated that 56 new employees will be associated with this new facility.

Questions Submitted by Senator D'Amato

AIDS PROGRAM OFFICE

Question: $260,000 is being requested in 1989 for the establishment of an "AIDS Program Office" within the VA. According to the budget documents, this Office would be responsible for coordinating the VA's clinical, research, and educational efforts to deal with this disease. Could you further describe the kinds of activities to be done through this proposed Office?

Answer: The AIDS Program Office was approved on January 7, 1988. The Director of the Office, Dr. Susan H. Mather, reports to the Associate Deputy Chief Medical Director for Programs and Operations, Dr. Daniel Winship. The Program Office functions broadly in the area of planning (both immediate and longterm), communication (within and outside the agency) and operations. It serves as the Executive Secretariat to the CMD's Steering Committee on AIDS and coordinates AIDS activities among the offices within the Department of Medicine and Surgery.

Question: Given the broad responsibilities of the proposed office, do you believe the $260,000 is sufficient?

Answer: Yes, $260,000 is sufficient.

Question: Do you have a current estimate of the number of veterans who have AIDS?

Answer: No, however, as of February 29, 1988, there were 3,777 veterans who have come to the VA for care with the diagnosis of AIDS since 1981.

Question: Among veterans who have AIDS, do you know the percentage of those who contracted the disease through IV drug use?

Answer: Of the cases reported to the VA as of February 29, 1988, 980 (25.95%) veterans with AIDS have a risk factor of drug abuse, and 266 (7.04%) have risk factors of both homosexuality and drug abuse.

Question: What is the VA doing to address the use of IV drugs among veterans, especially as it relates to AIDS?

Answer: The Veterans Administration has 51 Drug Dependence Treatment Programs and 108 Alcohol Treatment Programs (which also provide treatment for drug dependence). All of these programs include an educational component which specifically addresses AIDS. There are Drug Dependence Treatment Programs located in the VA epicenters of AIDS. The AIDS Steering Committee has identified AIDS in IV drug abusers as their top priority for discussion at their next meeting in June 1988.

EXPANSION OF GERIATRIC RESEARCH, EDUCATION AND CLINICAL CENTERS

Question: The "Independent Veterans Budget," sponsored by the major veterans service organizations, advocates expanding the number of Geriatric Research, Education, and Clinical Centers from 12 to 16 in the coming fiscal year. Given the projected increase in the number of elderly veterans coming into the VA system (up to 40% of all VA patients will be over 65 in 1992) do you support this proposal?

The independent budget also recommends having a total of 27 Geriatric Centers -- one in each of the VA's 27 medical districts -- by the early 1990's. Do you believe this is a realistic proposal?

Answer: The VA currently operates 10 GRECCs at VA Medical Centers Bedford/Brockton-West Roxbury (2 division), Durham, Gainesville, Minneapolis, St.Louis, Little Rock, Palo Alto, Sepulveda, West Los Angeles (Wadsworth) and Seattle/American Lake (2 division). We do not support the recommendations of the independent budget. The VA reviews the number of GRECCs each year and, if we believe it is warranted, additional GRECCs will be proposed.

QUESTIONS SUBMITTED BY SENATOR INOUYE

BOARD CERTIFIED PSYCHOLOGISTS

Question: General Turnage: The Veterans Health Care Amendments of 1984 provided the VA with the authority to provide special pay bonuses for those psychologists who had received their board certification. To date the VA has not implemented this provision of the law. I would appreciate learning the following information:

How many VA physicians will receive such a pay bonus this year due to having received their board certification?

Answer: P.L. 98-528 granted the Administrator use of certain discretionary personnel authorities under Title 38 to appoint, promote and advance certain board certified psychologists in VA medical care facilities. This legislation has not been interpreted by the VA's General Counsel or by the Department of Medicine and Surgery (DM&S) as providing the Administrator with authority to approve special pay increases for those board certified psychologists. In this respect the discretionary authority for psychologists varies significantly from the special pay authority for physicians. This latter authority provides for a $2000 incentive to be included in the special pay calculation for a physician board certified in a VA recognized specialty. Based on data in the April 1987, Report to Congress on the Health Care Amendments of 1980, 8,344 of 12,284 physicians employed in DM&S were board certified. Data do not indicate which of the 8,344 physicians receive the special pay component for board certification; however, it is probable that most (if not all) of the 4,590 full time board certified physicians receive that component and it is estimated that 3,300 of the 3,754 board certifed part time physicians receive that component.

Question: What percentage of VA physicians does this represent and what percentage of the board certified VA physicians does this figure represent?

Answer:

FULL TIME

DM&S TOTAL	BOARD CERT. TOTAL	BOARD CERT. SPEC. PAY RECIPIENTS TOTAL
7,114	4,590 (64.5%)	est. 4,590 (100% of BC Total)

PART TIME

DM&S TOTAL	BOARD CERT. TOTAL	BOARD CERT. SPEC. PAY RECIPIENTS TOTAL
5,170	3,754 (72.6%)	est. 3,300 (87.9% of BC Total)

ALL PHYSICIANS

DM&S TOTAL	BOARD CERT. TOTAL	BOARD CERT. SPEC. PAY RECIPIENTS TOTAL
12,284	8,344 (67.9%)	est. 7,890 (94.6% of BC Total)

Question: What other pay bonuses do these same individuals receive from the VA?

Answer: These individuals may receive any of the other Special Pay Program components, in addition to the board certification component, for which they meet eligibility criteria, e.g., full time component, tenure component, responsibility level component, scarce specialty component.

Question: What percentage of VA physicians receive pay bonuses of any kind?

Answer: The April 1987, Report to Congress, indicates that 83.7% of all VA physicians are in receipt of some special pay. Special Pay as authorized by 38 USC 4118 is the only "pay bonus" available to DM&S physicians.

Question: How many psychologists are employed by the VA?

Answer: As of 9/30/87:
Total Full Time = 1,408
Total Part Time = 175
Total Intermittent = 4
TOTAL = 1,587

Question: How many psychologists employed by the VA are board certified?

Answer: A field survey conducted in January 1986, indicated that 204 full time DM&S psychologists and 9 part time DM&S psychologists were board certified. Additionally, 1,092 full time psychologists and 83 part time psychologists are board eligible.

Question: If the VA were to provide board certified psychologists with a pay bonus in exactly the same manner that board certified physicians currently receive, what would be the cost this fiscal year?

Answer: The nature of the physicians Special Pay Program makes this very difficult to estimate. The average special pay paid to a full time DM&S physician is reported in the April 1987, Report to Congress, as $16,108 per annum; the average special pay paid to eligible part time physicians is $6,903 per annum. Using these figures, the annual cost for full time board certified psychologists would be estimated at $3.3 million and for part time board certified psychologists, $62,000. However, it should be noted that if only 50% of the board eligible psychologists were to decide to sit for the exam for certification, the annual cost, estimated on this basis, would increase by another $8.8 million for full time and $283,000 for part time. Therefore, paying special pay to board certified psychologists on the same basis as it is paid to DM&S physicians carries the potential annual cost of $12.4 million.

Question: Do any other health care specialists within the VA receive special pay bonuses; if so, under what authority, and at what annual cost?

Answer: DM&S Dentists receive special pay under the same authority as physicians, i.e. 38 USC 4118. The average special pay paid to 889 eligible dentists was reported in the April 1987, Report to Congress, as $4,478; this is an average total cost of $3.9 million.

Question: What is the rationale for the board certification pay bonus for VA physicians? Is it primarily for recruitment and retention, or to ensure the highest quality of care? If not for "quality of care" reasons, why does the Administration support the different types of physician bonuses, why not combine them into one incentive program?

Answer: The Special Pay Program, established in Title 1 of Public Law 96-330, provided permanent authority for assuring that the levels of total pay for VA physicians and dentists are fixed at levels that are reasonably comparable (1) with the levels of total pay of other Federal physicians and dentists, and (2) with the income of non-Federal phsyicians and dentists. The program has as its primary intent the recruitment and retention of well-qualified physicians and dentists. It is an integrated program providing for the following criteria to be used in determining the special pay entitlement of the particular physician or dentist: full-time or part-time status, length of VA service, scarcity of medical specialty, responsibility of position, board certification and geographic location. It is this single, integrated incentive pay program that is supported by the VA.

QUESTIONS SUBMITTED BY SENATOR GRASSLEY

CONSTRUCTION BUDGET

Question: As you know, the veterans service organizations have developed again this year a separate budget. And in their testimony earlier this month before the Veterans Affairs Committee the representative of the Veterans of Foreign Wars stated:

". . . In this, our first attempt to develop a VA construction budget, we found the VA does not have the information required to formulate a needs-based construction budget. . . . . What is actually happening is the VA does little more than pick its projects from 172 uncoordinated "laundry lists."

Their point, of course, is that the construction budget should be related to a systematically determined set of priorities.

To me, this seems pretty reasonable. Could you comment on this assertion, and tell me whether it is a correct description of how you go about determining your construction allocations at the present time?

Answer: Needs based planning is the cornerstone of VA's facility planning program. The comments in the independent budget prepared by several veterans service organizations clearly indicate we need to better communicate to them how the construction planning system works. We will continue to make this an agenda item during future meetings between the Office of Facilities and the veterans service groups.

The FY 1989 medical facility construction budget request is a product of the planning and development efforts of the Office of Facilities and the VA Departments. In the case of the Department of Medicine and Surgery, the DM&S Medical District Initiated Program Planning Process (MEDIPP) serves as the initial programmatic basis of construction planning in the VA. These plans, which identify medical programs and levels of service, are reviewed, modified if necessary, and approved in VA Central Office. This serves as the basis for the development by each medical center of a Five Year Facility Plan -- a plan which identifies facility requirements and projects to correct deficiencies and to provide the necessary physical plant to meet programmatic objectives. The VA's facility development plan (FDP) initiative will mark a significant evolutionary improvement in the use and formatting of our needs based planning and project prioritization system. We look forward to contracting for 80 FDPs later this year.

The MEDIPP process, the FDP process and the Five Year Facility Planning Process for individual medical centers utilize to a large extent the expertise of medical center personnel -- the users of the facilities. No one knows better than the medical center what the functional and physical differences are at their hospital, and the characterization of this planning as "laundry lists" simply reflects a lack of understanding of the hospital level planning process.

CONSTRUCTION BUDGET

The prioritization of major construction projects which emerge from the planning process relies on an established methodology which was developed by VA at the direction of Congress. It is a state-of-the-art decision support tool and one which has worked very well since its development in 1986. This methodology has removed much of the judgmental decision making which was required for project selection prior to the methodology's development. The Advance Planning Fund (APF) process also provides the VA with the vital flexibility necessary to explore various corrective strategies and alternative conceptual approaches for informal decision making.

With respect to our FDP initiative, the FY 1989 Budget includes a request for an additional $10 million for this nationwide initiative we have to provide Facility Development Plans for all of our VA medical centers. Facility Development Plans (or FDPs) are a first time ever plan to develop a comprehensive, nationwide assessment of VA medical center facility needs to the year 2000 and beyond. An FDP is planned to be done for each VA medical center to provide an assessment of all the medical, functional and physical plant needs of each medical center as projected by our medical planning system and provide a facility development plan for the expansion, renovation and replacement needed to fulfill the mission of every one of our medical centers.

We certainly share the perspective that planning is not a static tool and we constantly are seeking methods to improve, refine, and objectify our planning methodologies. From this perspective we agree with the general assumption in the "independent budget" that there is not an endpoint to good planning and that enhancements need to be a continual part of the process.

Question: I understand that the VA has underway a facility development planning process demonstration project at four Veterans Administration medical centers. Is it correct that this project is designed to systematically develop construction, as well as perhaps other, priorities? When will this project be completed and when would you be moving to a system-wide implementation of it if the pilot project is considered successful?

Answer: As noted previously, we look forward to the facility development plan initiative making a significant evolutionary improvement in the use and reformatting of our needs-based planning and prioritization system and resulting in more uniform, consistent planning data and improved documentation of decision making.

The four pilot FDPs noted are expected to be completed in April 1988. Implementation of the first 40 FDPs will follow an evaluation of the pilot products by Booz Allen Hamilton/RTKL Associates, with whom we are currently finalizing contract negotiations. This evaluation is expected to be completed in June 1988.

TOTAL BUDGET REQUEST FOR VETERANS MEDICAL CARE

Question: I believe that your request for veterans medical care represents a two percent increase over Fiscal Year 1988. What is the anticipated rate of inflation that will apply to these programs over the next Fiscal Year?

Answer: There were two inflation rates used to determine the 1989 inflation increase in the Medical Care appropriation. These rates are based on economic assumptions provided by OMB. An inflation rate of 6.1 percent was used to calculate the increase for medical commodities; this was applied to specific medically related objects of expense. The Federal Non-defense, Non-pay purchase deflator of 3.9 percent was applied to non-medical related objects of expense (e.g. travel, transportation, printing, etc.). The composite inflation rate (resultant percentage increase of resources required for inflation after both rates are applied to the appropriation) for 1989 is 5.8 percent, which is applied only to non-pay purchases representing 38 percent of total obligations. Personnel compensation and benefits, which represent the other 61.7 percent, were partly adjusted for increased pay and partly adjusted for expected increases in productivity. The end result was an overall increase of 2 percent.

Question: Are you going to able to maintain a current services level in these programs, or do you anticipate reductions in service? And if you anticipate a current services level, how do you intend to provide that level given that inflation will be greater than the two percent increase you are requesting?

Answer: The VA will maintain a current services level in 1989 in the Medical Care appropriation. The current services level will be achieved by increased staffing productivity and savings generated by automated data processing activities.

QUESTIONS SUBMITTED BY SENATOR LAUTENBERG

As you know, there is a great need for an outpatient satellite clinic in New Jersey. I understand that the VA plans to receive the best and final offers for an Ocean County clinic this month, and that the VA plans to make the award for the new satellite outpatient clinic in April.

Question 1: Will the VA be able to stick to this schedule? If it does, when would construction begin and when would the facility be completed?

Answer: Yes. It is anticipated that award of the lease will occur on or about April 30, 1988 and construction or renovation of the facility will commence 90 to 120 days thereafter. The facility should be completed during June 1989 with activation scheduled for August 1989.

Question 2: Are there any remaining obstacles that could prevent the VA from making the award in April? If there are, what steps is the VA taking to overcome those obstacles?

Answer: There are no known obstacles at this time which may prevent the scheduled award in April 1988.

QUESTIONS SUBMITTED BY SENATOR BYRD

BECKLEY AND MARTINSBURG VA MEDICAL CENTERS

Question: The Senate report accompanying the fiscal year 1988 HUD-Independent Agencies Appropriations Bill (S. Report 100-192, October 6, 1987) included the following language, incorporated at my request:

> The Committee is concerned with the clinical addition and alteration project for the Beckley Medical Center, and the laundry replacement project for the Martinsburg Medical Center. These West Virginia projects have been included in the VA's 5-year plan and discussed in hearings before the Committee. The Committee expects the VA to accelerate these projects and incorporate them into the earliest possible President's budget request.

In addition, I have been in correspondence over the past three years with the Administrators of the Veterans Administration in support of these West Virginia projects.

Would you please review for the record, the status of these various West Virginia construction projects, indicating anticipated milestone events and schedules for completion for each of the projects?

Answer: The Beckley project is on the proposed FY 88 Design Fund List and included in the President's Fiscal Year 1989 budget request. An Architect/Engineer working drawing contract is scheduled for award in June 1988, with a construction contract award planned for June 1989. Construction is scheduled for completion in June 1991.

The Martinsburg laundry replacement project was not included in the President's FY 1989 budget request. A study is presently being made to determine how its development should proceed. Upon completion of the study, the project will be considered for a future budget. However, eventual funding will depend upon systemwide priorities and available resources.

CLARKSBURG VA MEDICAL CENTER

Question: What is the latest status of the $25.9 million clinical addition project at the Clarksburg VA Medical Center, for which I broke ground on December 16, 1986?

The fiscal year 1985 HUD Appropriations Bill included, at my request, the full amount budgeted ($21.4 million) for the project. In addition, I helped secure a reprogramming request in the amount of $4.5 million in September 29, 1986, which enabled a construction contract award to be made on September 30, 1986. Please update the status of the project, including anticipated milestone events and schedules for completion.

Answer: The current status of the Clinical Addition and Alterations project at Clarksburg is that construction is within budget and currently 58% complete. The estimated completion date for this project is May 1989. The current job progress indicates that this project will be completed ahead of schedule. The estimated dedication date is June 1989.

HUNTINGTON VA MEDICAL CENTER

Question: Please provide similar information regarding anticipated milestone events and schedules for completion (e.g., contract award, groundbreaking, construction completion, dedication) for the $47.5 million clinical addition to Huntington, West Virginia, Veterans Administration Medical Center, funds for which were included in the fiscal year 1988 HUD-Independent Agencies Appropriations Act with my strong support.

Answer: The project is presently being designed by the Architect-Engineer firm, Silling Associates, Inc., Charleston, West Virginia. Following is the current schedule for this project.

Complete Design	July 1988
Construction Contract Award	September 1988
Groundbreaking	October 1988
Estimated Construction Completion	October 1991
Estimated Dedication Date	November 1991

BECKLEY VA MEDICAL CENTER

Question: Please provide for the record similar information regarding anticipated milestone events and schedules for completion for the $15.7 million clinical addition to the Beckley, West Virginia VA Medical Center, which is included in the fiscal year 1988 budget at my request and at the urgings of the Committee as expressed in language incorporated at my request in the committee reports for the past two years. The response should include, but not be limited to, anticipated dates for the design and contract awards, groundbreaking, dedication, and occupancy.

Answer: The current schedule for the clinical addition project at the VA Medical Center, Beckley, West Virginia is:

Award A/E Contract for Working Drawings	June 1988
Complete Working Drawings	February 1989
Award Construction Contract	June 1989
Ground Breaking	July 1989
Complete Construction	June 1991
Dedication	August 1991
Occupancy	November 1991

WEST VIRGINIA NATIONAL CEMETERY

Question: Please update for the record, the status of the new West Virginia National Cemetery, for which I secured an earmarking of $1.75 million in appropriations in fiscal years 1984 and 1985.

Answer: The new West Virginia National Cemetery at Pruntytown was dedicated in September 1987 and currently is in operation. The design for the second phase of the cemetery development, the administrative building and committal shelter, has been completed. The construction contract award is scheduled for August 1988 under the SBA 8(A) program.

Question: Please update the record on the need to remedy staffing deficiencies, including programs serving Vietnam veterans, as urged in the committee report language, incorporated at my request last year as follows:

> The Committee is concerned about the lack of inpatient psychiatric services at the VA Medical Center in Huntington, WV. There is an increasing need for such services by World War II, Korean conflict, and Vietnam-era veterans in the primary service areas of the hospital. Most veterans requiring hospitalization for even mild to moderate psychiatric illness are referred to the VA Medical Center (VAMC), Salem, VA (232 miles from Huntington) and the VAMC Chillicothe, OH (97 miles from Huntington). The Committee is aware that the VA has approved funding for a clinical addition to the VAMC at Huntington, WV, pending congressional appropriations this year. However, it is anticipated that beds for psychiatric care in that new facility will not be available until 1992, despite an anticipated groundbreaking for the clinical addition in 1988.
>
> The Committee, however, believes that the Huntington VA Medical Center, in conjunction with the Department of Psychiatry at the Marshall University School of Medicine, is capable of actualizing a psychiatric inpatient bed service now to serve mild-to-moderately ill psychiatric patients. The Committee, therefore, urges that the Veterans Administration proceed toward working with the university in providing support which would allow the VAMC Huntington to provide urgently needed bed services for mild-to-moderately ill psychiatric patients by January 1, 1988.
>
> The Committee notes the continuing acute staffing deficiencies at the Huntington VA Medical Center and urges the agency to remedy this problem at the earliest possible date.
>
> The Committee also directs the agency, within available resources, to provide for six FTE's and related costs for an additional readjustment counseling center and satellite-center in West Virginia.

Answer: Inpatient Psychiatric Service, VAMC Huntington, West Virginia: At present the space constraints at the Huntington VA Medical Center do not allow for creation of an inpatient psychiatric service. The Clinical Improvement Addition project, approved for Fiscal Year 1988, provides for renovation of vacated space to create a 30-bed psychiatric ward at the Medical Center. Initially the ward was planned for the late stages of the project; however, the planned phasing of the construction has been modified to move this renovation forward. It is anticipated that the psychiatric ward could be opened in 1990.

The Huntington VA Medical Center is able to handle the psychiatric patients currently in their outpatient mental hygiene clinic in the acute stages, and utilizes the VAMC's in Chillicothe, Ohio and Salem, Virginia for any needed hospitalization. This is considered the most cost effective management of psychiatric care until construction allows for the opening of the ward at the Huntington VAMC.

Staffing, VAMC Huntington, West Virginia: In 1985 a site visit was conducted at the Huntington VAMC to evaluate their budget and staffing. It was concluded that their staffing was tight as a result of the start-up of the Medical School Affiliation. At the beginning of Fiscal Year 1986 they were funded for an additional 20.5 full-time equivalent employees to bring their staffing up to the appropriate operating level.

Since Fiscal Year 1986, their staffing level has been evaluated as appropriate for handling their patient workload under the Department's resource allocation method. Each year since 1986 they have received their proportionate share of funds received by the Department for inflationary cost increases.

Medical Center management has been evaluating internal staffing alignment, and has recently approved the recruitment for nine additional employees in the nursing service to enhance the direct patient care service.

Question: What is the magnitude of the cooperative VA-Defense Department research program at the Huntington VA Medical Center? For the record, indicate the funds devoted to this effort for the past several years. What is the Marshall University School of Medicine involvement in this effort? How could Marshall become more involved and how could this effort be enlarged? I would like to see several workable proposals developed for the record which would enlarge this cooperative effort among the Defense Department, the VA, and Marshall University.

Answer: Currently there is only one project funded in the amount of $112,000 annually at the Huntington VA Medical Center that is part of the DoD/VA cooperative medical research program.

The principal investigator on the VA/DoD project at Huntington is a faculty member at Marshall. The Research Office of the Veterans Administration is working with the Associate Chief of Staff for Research at Huntington VA Medical Center to develop additional research studies that would be appropriate for the VA/DoD research program. The role of Marshall University in this program will continue to be indirect, via the faculty appointments of future VA researchers in the cooperative program. It should be emphasized that the DoD/VA research program, like the VA research program as a whole, is limited to VA employees (and their DoD collaborators). None of the VA's research funds are used for grants or contracts to medical schools.

SUBCOMMITTEE RECESS

Senator PROXMIRE. The subcommittee will stand in recess until tomorrow morning at 10 a.m., when we will take testimony from the Consumer Product Safety Commission, the Office of Consumer Affairs and the Consumer Information Center. The hearings will take place in room S–126.

General TURNAGE. Thank you, sir.

[Whereupon, at 11:45 a.m. Monday, March 14, the subcommittee was recessed to reconvene at 10 a.m. Tuesday, March 15.]

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT-INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1989

TUESDAY, MARCH 15, 1988

U.S. Senate,
Subcommittee of the Committee on Appropriations,
Washington, DC.

The subcommittee met at 10:05 a.m. in room S–126, the Capitol, Hon. William Proxmire (chairman) presiding.

Present: Senators Proxmire, D'Amato, Domenici, and Grassley.

CONSUMER PRODUCT SAFETY COMMISSION

STATEMENT OF TERRENCE SCANLON, CHAIRMAN

ACCOMPANIED BY:
- CAROL DAWSON, VICE CHAIRMAN
- ANNE GRAHAM, COMMISSIONER
- THOMAS MURR, DEPUTY EXECUTIVE DIRECTOR
- JAMES LACY, GENERAL COUNSEL

BUDGET REQUEST

Senator Proxmire. The subcommittee will come to order. Our first witness this morning is Terrence Scanlon, Chairman of the Consumer Product Safety Commission, accompanied by Commissioners Carol Dawson and Ann Graham. You are requesting a budget, as I understand it, of $32,917,000 for fiscal year 1989, a modest increase of less than 1 percent over your current level.

Chairman Scanlon, would you summarize your statement with the understanding that your prepared testimony will be included in full in the hearing record?

Mr. Scanlon. I would be happy to, Senator.

Senator Proxmire. Let me just say that I am going to have to leave. The leader can't be here this morning. He has asked me to start the Senate, but I will only be up there, I hope, about 15 minutes, 20 minutes at the most. If another Senator is here, he can take over. If not, we will just have to recess for a few minutes.

Go right ahead.

INTRODUCTION OF WITNESSES

Mr. SCANLON. Good morning, Mr. Chairman. On my far left is Commissioner Anne Graham. On Anne's right is our Vice Chairman, Carol Dawson. On my immediate left is Tom Murr, the Deputy Executive Director of the Commission, and on my immediate right is Jim Lacy, the Commission's General Counsel.

SUMMARY OF STATEMENT

It is a pleasure to appear before the subcommittee today with my Consumer Product Safety Commission colleagues in support of our fiscal year 1989 appropriations request.

The request, which has been submitted to you in accord with the Office of Management and Budget, would provide $32,917,000 and 519 FTE's.

We believe the budget request before you, if approved, will allow the CPSC to carry out its mission, provided that significant unforeseen needs do not arise. For example, the Commission's legal staff, in conjunction with the Department of Justice, has just completed negotiating two final consent decrees formalizing a settlement with the all-terrain vehicle industry over vehicle safety concerns. The Commission has approved these documents and they were filed last evening with the U.S. District Court in Washington, DC.

The settlement is still subject to court approval. We are hopeful that the court will give expeditious approval to the provisions of this agreement. If, however, the consent decrees do not become final, litigation would go forward in the case filed by the Commission and the Justice Department December 30, 1987. Additional funds then would be necessary and the Commission would seek appropriate supplemental funding to meet such a contingency.

PRIORITY PROJECTS

Two projects have been selected by the Commission to be priorities for fiscal year 1989. They are the projects dealing with children's playground equipment and indoor air quality.

The children's playground equipment project will be elevated to priority status in fiscal year 1989 after 2 years of preliminary work. In 1986, an estimated 191,000 playground equipment-related injuries were treated in hospital emergency rooms involving children under the age of 15. Approximately 6,900 of these injuries required hospitalization. There was an average of at least 15 deaths each year on playground equipment from 1980 through 1985.

The indoor air quality priority project in fiscal year 1989 will complete a number of studies initiated in prior years. These studies will investigate product sources of indoor air pollution, including building materials and insulation, vented and unvented heating appliances, organic chemicals from consumer products, and humidifiers.

It is believed that most people spend nearly 90 percent of their time indoors. The elderly and children, populations at special risk, are generally exposed to indoor air pollutants for the greatest amount of time.

People usually consider their homes as safe havens from a hostile environment, but monitoring studies have shown that indoor levels of many pollutants can be considerably higher than outdoor levels.

COMMISSION SCOPE

In addition to these two lead projects for the coming fiscal year, the Commission also has a substantial array of ongoing activities and projects in the four general program areas of our agency.

For example, the hazard identification and analysis program provides the information base for the Commission to conduct all other aspects of its work. Then the program for hazard assessment and reduction follows with the technical work that is designed to find the causes of problems and to identify appropriate solutions. The two priority projects are part of this program, as are such high-visibility projects as those for cigarette lighters, all-terrain vehicles, and chlorocarbons.

One of the most important results of the hazard assessment and reduction program is the number of either voluntary or mandatory standards developed. These standards form the basis for much of the Commission's subsequent compliance and enforcement efforts.

The compliance and enforcement program remains the largest in the Commission. While the request level for fiscal year 1989 is slightly below fiscal year 1988, it has consistently grown in resources during the last several years. Funding has increased from 23 percent of CPSC resources in fiscal year 1983 to 32 percent in fiscal year 1989. Also, staffing has increased from 26 percent in fiscal year 1983 to 36 percent in fiscal year 1989. Much of the compliance support comes from our field operations around the country, with 103 of 145 field FTE's dedicated to compliance activities. The same compliance emphasis would apply to state and local contracts.

OPERATION TOYLAND

One of the recent notable successes of CPSC has been Operation Toyland, which has been part of our import surveillance operation. In cooperation with the Customs Service, we had strike team operations at the Ports of San Francisco and Los Angeles in September and at the Port of Newark, NJ, in October, resulting in the seizure of more than $3 million worth of unsafe toys.

Once such goods leave the dock, it is considerably more difficult to locate them and prevent their ultimate distribution to susceptible children. Most of these goods were small items in the lower price ranges, many of which probably would have been marketed to low-income families and unwary purchasers.

OPERATION HEATSTROKE

In another similar effort, Operation Heatstroke, the CPSC in conjunction with several other federal and state agencies, has just completed a 2-week surveillance of fireworks headed for American commerce through the Port of San Francisco. This significant operation was the result of a formal cooperative effort by this agency with the Customs Service, Bureau of Alcohol, Tobacco and Firearms, the Department of Transportation, the U.S. Coast Guard, and the California State Fire Marshal's Office.

More than 30 seizures of 3.2 million units of illegal fireworks, valued at nearly $750,000 domestically, were effected for violations of U.S. Government safety standards. The significance of this operation is clear in view of the approximately 9,000 injuries in 1987 that were associated with fireworks and which were treated in hospital emergency rooms.

The majority of these injuries were to children and many were caused by illegal fireworks similar to those seized in Operation Heatstroke.

Two-thirds of the fireworks used in the United States yearly are imported and 20 percent of them pass through the Port of San Francisco.

ALL-TERRAIN VEHICLES

Mr. Chairman, the ATV project, which CPSC has pursued as a priority for the last 2½ years, has been the most extensive such operation ever undertaken by the agency. As stated previously, negotiations on two final consent decrees have just been completed and filed with the U.S. district court. A hearing before Judge Gerhard Gesell will be held April 18 on the terms of the settlements. Litigation would be necessary only if those settlements are not approved by the court.

The Department of Justice, in conjunction with us, filed a lawsuit on December 30, 1987, against the manufacturers and distributors of ATV's seeking to have these vehicles declared imminently hazardous consumer products. The complaint was accompanied by two preliminary consent decrees, which ended the marketing of all three-wheeled ATV's, committed the industry to an enhanced rider training effort, and required the industry to undertake a vigorous public awareness campaign concerning the risks associated with ATV's. Details of the notice, warning, and training provisions in the preliminary consent decrees are among the subjects that have been negotiated in recent weeks.

This has been a very complex case, involving not only the technical aspects of our investigations and studies, but also considerable interest in the public policy considerations of the issue.

We are committed to a satisfactory resolution of this important issue under the statutes provided to us. We believe, in fact, that the Commission's work on this project has already achieved substantial success. Our staff now estimates that between 1985, when the ATV task force began its work, and 1992, the rate of injuries for ATV use will decline by approximately 50 percent. By any standard, this kind of decrease in the rate of injuries would be a dramatic improvement.

I would ask your permission, Senator Proxmire, to include in the record a press release dated March 14, which was issued last night on the final consent decrees.

Senator PROXMIRE. Very good. Without objection, so ordered.

PREPARED STATEMENT

Mr. SCANLON. There are a few other accomplishments associated with our activity that could be mentioned. Also, a summary statement on cigarette safety was a part of my prepared remarks. However, we can just put those in the record with your permission.

[The statement follows:]

STATEMENT OF TERRENCE SCANLON, CHAIRMAN, CONSUMER PRODUCT SAFETY COMMISSION

Mr. Chairman, it is a pleasure to appear before the Subcommittee today with my Consumer Product Safety Commission [CPSC] colleagues, in support of our FY 1989 appropriations request.

The request, which has been submitted to you in accord with the Office of Management and Budget, would provide $32,917,000 and 519 FTEs. This would provide a very slight increase over present funding (less than 1 percent), and a return to the current year's original staffing plan before Congressionally mandated cuts, but with the staff restoration occurring in areas other than those specified for reduction by Congress.

We believe the budget request before you, if approved, will allow CPSC to carry out its mission, provided that significant unforeseen needs do not arise. For example, the Commission's legal staff, in conjunction with the Department of Justice, has just completed negotiating two final consent decrees formalizing a settlement with the All-Terrain Vehicle [ATV] industry over vehicle safety concerns. The Commission has approved these documents and they have been filed with the U.S. District Court in Washington, D.C. The settlement is still subject to court approval. We are hopeful that the Court will give expeditious approval to the provisions of this agreement. If, however, the consent decree did not become final, litigation would go forward in the case filed by the Commission and the Justice Department December 30, 1987. Additional funds then would be necessary and the Commission would seek appropriate supplemental funding to meet such a contingency.

Mr. Chairman, this appropriation request continues the limitation on compensation funds for Commissioners so that only three Commissioners may serve in FY 1989, coinciding with the number actually on board. The dollar amount for this item has been increased only to a level sufficient to accommodate any increase in the cost of benefits.

As we plan ahead for the activities of FY 1989, this budget will permit us to support 25 hazard projects, only two below the current level. These are the activities that reach to the heart of product hazards, determine their cause and provide remedies where possible.

PRIORITY PROJECTS

Two projects have been selected by the Commission to be priorities for FY 1989. They are the projects dealing with Children's Playground Equipment and Indoor Air Quality. These two projects were selected for full funding after a careful review of staff recommendations and public comments during an open hearing. Priority projects are those that address substantial risks and have a strong potential for reaching safety goals within a reasonable time.

Allow me to review these two priority projects for you briefly.

One. The Children's Playground Equipment—This project will be elevated to priority status in FY 1989 after two years of preliminary work. In 1986, an estimated 191,000 playground equipment-related injuries were treated in hospital emergency rooms involving children under the age of 15. Approximately 6,900 of these injuries required hospitalization. There was an average of at least 15 deaths each year on playground equipment from 1980 through 1985.

In 1987, the Commission staff began work on this project. It continues through this fiscal year, with special studies to collect incident data from a variety of sources.

As a priority item in FY 1989, the Commission will undertake the following steps: 1) prepare a hazard analysis of the incident data, 2) conduct an analysis of user characteristics that contributed to the accidents, 3) award a human factors contract to identify the type and size of equipment best suited for children's development patterns and age specific characteristics, 4) evaluate the hazard presented by wood preservatives used in wooden playground equipment, 5) develop an information program for Playground Safety Week, which will include a safety check list to be developed in 1988, and 6) develop State and local programs aimed at corrective action plan checks and identification of hazardous playground equipment. The Commission will also continue to participate in the voluntary standards activity of trade groups that represent manufacturers of both public and home playground equipment.

Mr. Chairman, the purpose of this important project is to reduce the number and severity of injuries and the number of deaths associated with playground equipment involving our nation's children—one of its most vulnerable populations.

Second. The Indoor Air Quality [IAQ]—As a priority project in FY 1989, the Commission will complete a number of studies initiated in prior years. These studies will investigate product sources of indoor air pollution, including building materials and insulation, vented and unvented heating appliances, organic chemicals from consumer products, and humidifiers.

The Commission will continue to evaluate available information on the health effects associated with these pollutants, while developing guidance on decreasing exposure to indoor air pollutants. Our staff will develop guidance information, for example, on how to deal with asbestos in the home and will continue to work with voluntary standards organizations in developing and evaluating IAQ mitigation strategies, providing technical support when appropriate.

It is believed that most people spend nearly 90 percent of their time indoors. The elderly and children—again, populations at special risk—are generally exposed to indoor air pollutants for the greatest amounts of time. People usually consider their homes as safe havens from a hostile environment, but monitoring studies have shown that indoor levels of many pollutants can be considered higher than outdoor levels.

Since a large proportion of indoor air pollution sources are associated with consumer products, the Commission has long taken an active role in addressing IAQ questions. Indeed, Indoor Air Quality was a Commission priority from 1982 through 1984. Initial work dealt with understanding the health risks associated with formaldehyde from building supplies and insulation, carbon monoxide, nitrogen dioxide and other pollutants from unvented combustion appliances, and asbestos from a variety of consumer products. More recent efforts include methylene chloride, perchloroethylene, other organic chemicals from consumer products,and airborne biological contaminants from such products as humidifiers, varporizers, and air conditioners.

Mr. Chairman, the purpose of this important priority is to develop necessary technical information as expeditiously as possible for a pervasive problem affecting a large number of Americans.

COMMISSION SCOPE

In addition to these two lead projects for the coming fiscal year, the Commission also has a substantial array of ongoing activities and projects in the four general program areas of our Agency.

For example, the Hazard Identification and Analysis Program provides the information base for the Commission to conduct all other aspects of its work. This includes the National Electronic Injury Surveillance System [NEISS] which provides estimates of the frequency and severity of product-related injuries, a primary source for determining and documenting the hazard patterns associated with products under Commission jurisdiction.

Then the program for Hazard Assessment and Reduction follows with the technical work that is designed to find the causes of problems and to identify appropriate solutions. The two priority projects are part of this program, as are such high-visibility projects as those for Cigarette Lighters, All-Terrain Vehicles [ATVs], and chlorocarbons.

One of the most important results of the Hazard Assessment and Reduction Program is the number of either voluntary or mandatory standards developed. These standards form the basis for much of the Commission's subsequent Compliance and Enforcement efforts. In FY 1989, we expect to be participating in the development of 16 standards or revisions to standards, with nine others expected to be completed. The Commission also is likely to have three mandatory rules still under development in FY 1989 [ATVs, Small Parts in Toys, and Child Resistant Lighters).

The Compliance and Enforcement Program remains the largest in the Commission. While the request level for FY 1989 is slightly below FY 1988, it has consistently grown in resources during the last several years. Funding has increased from 23 percent of CPSC resources in FY 1983 to 32 percent in FY 1989. Also, staffing has increased from 26 percent in FY 1983 to 36 percent in FY 1989. Much of the Compliance support comes from our Field Operations around the country, with 103 of 145 Field FTEs dedicated to compliance activities. The same compliance emphasis would apply to State and local contracts.

Our resource requests for Compliance remain consistent with this trend. For example, resource allocations for the Regulated Product Subprogram show a substantial increase for both FY 1988 and FY 1989 over last year's levels. This increase is to support the implementation of a comprehensive enforcement plan to assure compliance with all CPSC safety standards and to expand the Agency's import surveillance activities. The Import Surveillance Project, which was begun during FY 1987, will continue to be a major activity in FY 1989. It focuses on finding consumer goods that violate safety standards on the shipping docks before these products enter the wholesale and retail distribution system. In FY 1989, several joint CPSC/U.S. Customs Service "blitz" surveillance activities will be initiated to examine products of mutual concern.

OPERATION TOYLAND

Mr. Chairman, one of the recent notable successes of CPSC has been Operation Toyland which has been part of our import surveillance operation. In cooperation with the Customs Service, we had strike team operations at the Ports of San Francisco and Los Angeles in September and at the Port of Newark, New Jersey, in October, resulting in the seizure of more than $3 million worth of unsafe toys. The seized goods, which violated safety standards for such products, were mostly small parts than can choke a child and were destined for holiday sales at the retail outlets of America. Once such goods leave the dock, it is considerably more difficult to locate them and prevent their ultimate distribution to susceptible children. Most of these goods were small items in the lower price ranges, many of which probably would have been marketed to low-income families and unwary purchasers.

While these seizures represented only a fraction of the imported toys brought into America, the impact of the project is very effective. It reaches 100 percent of the violative products in the shipment involved and it sends a clear message to shippers and importers of goods that might be subject to such potential compliance operations at any American dock.

ALL-TERRAIN VEHICLES (ATV'S)

Mr. Chairman, the All-Terrain Vehicle [ATV] project, which CPSC has pursued as a priority for the last two and a half years, has been the most extensive such operation ever undertaken by the Agency. As stated previously, negotiations on two final consent deerees have just been completed and filed with the U.S. District Court in Washington, D.C. A hearing before Judge Gerhard Gesell will be held April 18 on the terms of the settlements. Litigation would be necessary only if the settlements are not approved by the court.

The Department of Justice, in conjunction with CPSC, filed a lawsuit on December 30, 1987, against the manufacturers and distributors of ATVs seeking to have these vehicles declared imminently hazardous consumer products. The Complaint was accompanied by a preliminary consent decree which ended the marketing of all new 3-Wheeled ATVs, committed the industry to an enhanced rider training effort, and required the industry to undertake a vigorous public awareness campaign concerning the risks associated with ATVs. Details of the notice, warning, and training provisions in the preliminary consent decree are among the subjects that have been negotiated in recent weeks.

This has been a very complex case, involving not only the technical aspects of our investigations and studies but also considerable interest in the public policy consideration of this issue.

We are committed to a satisfactory resolution of this important issue, under the statutes provided to us.

We believe, in fact, that the Commission's work on this project has already achieved substantial success. Our staff now estimates that between 1985 (when the ATV Task Force began its work) and 1992, the rate of injuries for ATV use will decline by approximately 50 percent. By any standard, this kind of decrease in the rate of injuries would be a dramatic improvement.

OTHER ACCOMPLISHMENTS

Since we were last before this Subcommittee, CPSC has been a busy Agency. In addition to the more publicized activities already mentioned, the Commission has had a full list of other accomplishments.

In compliance activities, as an example, more than a million consumer products were modified in FY 1987 to correct non-complying features, or other defects. Recalls included such items as smoke alarms, roof vent caps, electric space heaters, toys and children's products, and potentially flammable garments. The staff negotiated major corrective actions under Section 15 authority involving such things as high efficiency home and mobile home furnaces, camp stoves, baby walkers, vacuum cleaners, bicycles, snowmobiles, and skindiving equipment. Failure of firms to report defective products to the Commission as required by Section 15 of the Consumer Product Safety Act resulted in three civil penalty assessments totaling $220,000 in FY 1987. Already in FY 1988, there are three civil penalty settlements totaling $473,000.

A total of 371 firms were found to be in violation of mandatory requirements in FY 1987, and in each case a corrective action has been taken or is being negotiated.

The Commission has also notified manufacturers of methylene chloride that the Federal Hazardous Substances Act [FHSA] requires their product to be labeled to indicate that methylene chloride vapor presents a potential cancer risk, and to specify precautions to be taken during use by consumers.

We continue on track with our current priority projects (ATVs, Riding Mowers, and Child Drownings in Residential Swimming Pools) and look forward to reaching the goals and milestones we have set for ourselves in these areas.

CIGARETTE SAFETY

Mr. Chairman, I am also pleased to report to you that the Cigarette Fire Safety Project, for which you provided funding through the CPSC budget, has been successfully completed and the appropriate reports have been provided to Congress. The final report by the Technical Study Group, which concluded that it is technically feasible and may be commercially feasible to produce cigarettes with a reduced propensity to ignite upholstered furniture and mattresses, was submitted to Congress at the end of October 1987, followed two months later by policy recommendations by the Interagency Committee which oversaw the project. Once the Technical Study Group and Interagency Committee had completed their Congressionally mandated tasks, both were dissolved in compliance with the statute.

CONCLUSION

Mr. Chairman, the activities of the Agency are too numerous to review in this presentation. I have touched on the highlights and the budget document before you gives in much greater detail the overall thrust of the funding requests and the work that is to be supported.

It is a pleasure to appear before the Subcommittee again in support of the CPSC budget request for FY 1989. I would be pleased to answer any questions.

TELEVISION SETS

Senator PROXMIRE. Very good, sir. That will be put in the record without objection. Last night's National Public Radio program, "All Things Considered" contained a report on complaints of Zenith televisions which exploded or burned. According to the report, when Zenith was sued by the state of Texas in one of these incidents, the company turned over to the state a list of 1,700 consumers whose TV sets had caused the fire. As part of a settlement under which Texas received $2 million, the state had to return this list and keep its contents secret.

Did you know of the existence of this list, and if yes, what did you do to follow up on it?

Mr. SCANLON. I am not sure; we are familiar with the listing. We were specifically involved with the Zenith television that caught on fire in Austin, Tex., I believe, in 1983. I believe our Compliance Division is checking, doing other checks from the list.

Senator PROXMIRE. CPSC has been encouraging companies to voluntarily report defect or hazard data. According to news reports, Zenith has been sued over 50 times in the last few years over these incidents. Were any of these suits reported voluntarily to the CPSC that you know of?

Mr. SCANLON. I am not aware of any, Senator Proxmire.

Senator PROXMIRE. Will you check it for the record and let us know?

Mr. SCANLON. We will.

[The information follows:]

ZENITH REPORTS TO COMMISSION

Commission records indicate Zenith has reported seven times to the Commission under section 15 of the CPSA. The reports came in as follows:

1. 9/13/74 (RP 74-19) 19" color TV
   Hazard: Problem with focus capacitor.
   Disposition: Corrective action undertaken.
2. 9/3/76 (ID 760158) Black and white TV
   Hazard: Possible electric shock due to wiring error of antenna filter and balun.
   Disposition: Corrective action undertaken.
3. 4/12/79 (ID 793160) 13" and 17" TV
   Hazard: Potential shock hazard if high voltage transformer fails.
   Disposition: Corrective action undertaken.
4. 1/4/83 (RP 83-30) Color TV monitor
   Hazard: Potential shock if interference filter cover separates during plug removal.
   Disposition: Corrective action undertaken.
5. 8/17/83 (RP 83-115) 13" color monitor
   Hazard: Electric shock if mounting bracket penetrates degaussing coil insulation.
   Disposition: Corrective action undertaken.
6. 1/13/87 (RP 87-53) Color console
   Hazard: Cabinet back mounting screw could contact live internal component; electric shock potential.
   Disposition: Corrective action undertaken.
7. 1/13/87 (RP 87-52) Computer
   Hazard: Electric shock potential from pinched wire.
   Disposition: Corrective action undertaken.

It should be noted, however, that a report filed pursuant to section 15 of the CPSA does not necessarily mean a product presents a substantial product hazard.

With respect to the February 6, 1983, Texas state capitol fire recently reported on National Public Radio [NPR], the Commission staff was aware of the fire and participated in the investigation of the incident. As Mr. Schmeltzer indicated on March 15, 1988, a report relating to the Commission's actions on the Texas state capitol fire, as well as many of the other allegations contained in the NPR segment, will be provided to the Committee as requested.

INJURY STATISTICS

Senator PROXMIRE. I know your agency has a rule of thumb it uses in determining a potential scope of a consumer problem. Most agencies that deal with hazardous substances or products say that for every publicly reported case, there are 50 to 100 cases which don't get reported. What number do you use?

Mr. MURR. What we use for injury statistics from our system, we recognize that we are collecting only injuries reported in a hospital emergency room setting. We, to supplement that——

Senator PROXMIRE. Do you get all those?

Mr. MURR. It is a statistical sample from which we project a national estimate.

Mr. SCANLON. From about 60 hospitals.

Senator PROXMIRE. I see. In those 60 hospitals, do you get all the emergency rooms?

Mr. MURR. We get all consumer product-related injuries in the reporting hospitals. We are looking at other ways to supplement some of that. As one example, in the last 10 years or so, the increase in the number of walk-in clinics. Many people may go to a setting such as that rather than a hospital emergency room for treatment. We are currently looking at ways to gather data from sources such as that.

Senator PROXMIRE. What multiplier are you using in extrapolating those figures?

Mr. MURR. From the emergency rooms?

Senator PROXMIRE. Yes.

Mr. MURR. It is based on each hospital. Each hospital is weighted for the population it represents. It is specific to each hospital.

TELEVISION FIRES

Senator PROXMIRE. Let me ask you about the particular fire reports again. How many fire reports would it take for you to begin an investigation?

Mr. SCANLON. Well, if there were a serious hazard, Senator, we would do an in-depth investigation on individual fires and where a death occurred.

Senator PROXMIRE. Are you doing one now in view of what has happened in Texas?

Mr. SCANLON. On Zenith?

Senator PROXMIRE. Yes.

Mr. SCANLON. Yes; we have some.

Senator PROXMIRE. Can you tell us when you will have the results of that?

Mr. SCANLON. I will have to supply that for the record, if we may, or I can refer to David Schmeltzer, our Director for Compliance.

Senator PROXMIRE. Mr. Schmeltzer?

Mr. SCANLON. Schmeltzer.

Senator PROXMIRE. Schmeltzer. I beg your pardon, sir. I had a good friend, a classmate in college named Schmeltzer, terrific, also a good-looking guy. [Laughter.]

Mr. SCHMELTZER. Must be my twin brother.

Senator PROXMIRE. Identical twin; right? OK, go ahead.

Mr. SCHMELTZER. The only information that I can report to you at this time is that we had an investigation on the Zenith television set that emanated from a fire back in 1983, and there was a death involved. It was the state capital. We looked into that. While we found the defect, we couldn't find any substantial risks of injuries because all the fires that we knew of, other than that single case, and the facts were in dispute there, were contained within the television set.

I have heard of the report on public radio, but we didn't get a chance to look into it. So we will be looking into that in the future.

Senator PROXMIRE. You will be looking into that and you will have a report for us in the near future?

Mr. SCHMELTZER. Yes, sir; Yes.

Senator PROXMIRE. Can you give us a more specific date?

Mr. SCHMELTZER. Yes.

Senator PROXMIRE. One week, two weeks?

Mr. SCHMELTZER. Oh, it would take a minimum of 2 weeks.

Senator PROXMIRE. All right.

[The information follows:]

EXECUTIVE SUMMARY

During the oversight hearings on March 15, 1988, you inquired about the National Public Radio's "All Things Considered" series on Zenith television fires. You requested a report on our follow-up investigation on Zenith televisions.

The staff has completed the first phase of its follow-up on the NPR series. It has reviewed the list of more than 1700 "fire" and "smoking" incidents referred to in the NPR report and concluded that no further investigation into Zenith televisions manufactured prior to 1978 is warranted. The staff is obtaining more information from Zenith about the 9-160 electronic module used in televisions manufactured from 1978-1982, and the 9-186 module used from 1982-1986, and intend to complete the investigation of these components by May 31, 1988.

THE STAFF INVESTIGATION

Daniel Zwerdling's segments on National Public Radio's "All Things Considered" raise a number of questions about fire hazards presented by Zenith color televisions. While NPR apparently began its investigation with the Texas Capitol fire, it reports broad allegations that cover a range of approximately 20 years from the late 1960s to the present.

NPR reported allegations of several safety problems:

1. More than 1700 consumers complained to Zenith that their televisions caught on fire. (Transcript of March 14, 1988 broadcast, page 3.)

2. An electronic module known as the 9-160 has had service problems and, therefore, may have caused fires. (Transcript of March 15, 1988, page 6.) [This module was manufactured for use in new television production from 1978-1982.]

3. A second power module known as the 9-186 was implicated in the Texas fire by the State's experts, and may present a fire hazard. (Transcript of March 15, 1988 broadcast at page seven.) [This module was manufactured and incorporated in Zenith color televisions from 1982-1986.]

4. A number of individual fires were attributed to Zenith televisions. The televisions identified in these incidents were models manufactured over a period of more than 10 years, from 1971 to 1982.

The Commission has carefully reviewed these allegations, reexamined its own files, and contacted Zenith for further information. We have also contacted NPR seeking additional information. Although our evaluation of this information is not complete in all respects, response to most points is possible. We will address each of the hazard allegations in turn.

1. The 1700 "Fires"

NPR reported that over 1700 fire incidents were discovered by the State of Texas in its investigation and that at least 50 lawsuits alleging that Zenith televisions have caused fires have been filed across the country. This allegation raises several points.

First, the Commission staff was aware of the list of "1700" "fires" several years ago. Many of these incidents were reported to the Commission during its investigation of television fires in the mid-1970s, and others were examined in the wake of the February 1983 Texas Capitol fire.

At our request, Zenith has provided us with the list referred to in the NPR broadcast. This list involves many incidents of smoking or burning of isolated components with no fire or damage outside of the television.

Second, the list of "1700" incidents were reported over a period from the late 1960s to the early 1980s. Most of these involved television sets manufactured in the 1960s or 1970s rather than the "late '70s and early '80s" timeframe focused upon by the NPR series. (Transcript of March 15, 1988 broadcast at page 1.) Some historical background may help to understand this data and place it in context.

On February 28, 1975, concerned about the magnitude of the television fire problem, the Consumer Product Safety Commission initiated a rulemaking proceeding to set safety standards for televisions. Underwriters Laboratories (U.L.) offered to develop a standard and submitted its recommendation to the Commission on July 6, 1976. Effective July 1, 1976, U.L. upgraded its voluntary standard to require polarized plugs, flammability improvements for the TV enclosure, an overload protective device for the power source, and other improvements. The voluntary standard was upgraded again in January 1978, upgrading the flame resistance of components. Further upgrading occurred on January 1, 1979.

Because the entire television industry listed their televisions with U.L. and, therefore, were complying with the U.L. standard, the Commission ended its mandatory standard development effort July 27, 1979.

This Commission activity has had a profound affect on television fire hazards. There has been a substantial reduction in reports of TV related fires attended by a fire service since 1977. In 1977, there were an estimated 11,000 residential fires and 160 deaths associated with televisions, radios and other sound equipment. Although in 1980 there were still an estimated 9,700 reported fires, 150 deaths and 310 injuries, this figure was reduced to 4,500 fires, 20 deaths and 210 injuries by 1985. (See Table 1, below)

TABLE 1 - Television, Radio and Other Sound Equipment Fires Reported

Year	Fires	Deaths	Injuries
1980	9,700	150	310
1981	8,400	50	380
1982	6,700	70	260
1983	6,000	60	380
1984	5,200	40	230
1985	4,500	20	210

(Source: National Fire Incident Reporting System, U.S. Fire Administration (NFIRS) and National Fire Protection Association (NFPA).)

Based on additional data for 1985, CPSC estimates that in 1985 70% of the fires in this T.V., radio and other sound equipment category involved televisions. It, therefore, estimates that in 1985 there were 3300 residential fires, 10 deaths and 150 injuries associated with televisions.

Zenith was not the only firm implicated in the fire data. The Commission staff has compared NFIRS television fire data to market share information in an effort to determine whether Zenith has been implicated in a disproportionate share of the reported TV fires. The data indicate that Zenith's share of the reported fires is no greater than one would expect given its share of the market.

Since the NPR series has not identified any defects or trends unique to Zenith's television sets produced prior to 1978, the Commission staff sees no basis for further investigation of Zenith sets manufactured during this period.

2. The 9-160 Electronic Module

NPR's reports of hazard in the 9-160 power module seem to revolve not around proven involvement of the module in fires, but rather around "service problems," and theoretical concerns of an "expert." The Commission staff is investigating these issues.

The 9-160 module is a circuit board with a number of different functions and numerous components. In the event of a component failure, service personnel are supposed to merely remove the entire module and replace it. The module that has been removed is then sent back to Zenith where, depending on its condition, it may be remanufactured and used as a replacement part.

That components on such a board fail, and that the boards need to be replaced, is not surprising. However, without further information, the staff is unable to address the implication that these failures constitute a safety problem. The staff has been able to check one specific allegation made in the NPR report: that Washington based Erols, an appliance dealer and repair shop, reported higher failure rates with Zenith 9-160 electronic modules than those manufactured by others. (NPR transcript of March 15, 1988 broadcast, page 6.)

Erols informs us that this report is not accurate. They also claim that although they have sold tens of thousands of Zenith's televisions, they have not experienced any fires.

We have requested engineering data about the 9-160 from Zenith and are examining liability and reliability data in order to determine if there is any basis for concern that these boards may present a risk of fire.

3. The #9-186 Power module

The NPR report included allegations that the #9-186 power module was the cause of the Texas Capitol fire and presents a serious fire hazard. Zenith disputes this allegation. (See Zenith letter of March 28, 1988, attached.)

In March 1983, the Commission's Dallas Regional office, assisted by headquarters compliance and engineering personnel, began an investigation into the Texas Capitol fire. Over the next year, the staff evaluated technical and incident data provided by Zenith and was eventually allowed to examine portions of the information assembled by the Texas Attorney General's office.

While the Commission staff concluded that a defect existed in the 9-186 board, it did not believe that the defect presented a substantial risk of injury, primarily because available data suggested that ignition of the television or items outside of the television was highly unlikely. The Commission staff was also aware of the extensive controversy regarding whether the television had in fact been the source of ignition in the Texas Capitol fire.

As the result of the NPR series, the staff has reopened its investigation of the 9-186, obtaining additional engineering and claims information from Zenith. While it is too early in this effort to reach a conclusion, the staff anticipates--with continuing cooperation from Zenith--it will complete its reevaluation of this issue very soon.

4. Individual Fire Incidents

A number of fire incidents were cited by location or name in the NPR series. Several of the televisions involved in the incidents were manufactured during the 1970s before changes in the U.L. standard had been implemented. In addition, there is substantial dispute as to whether all or even most of these incidents were caused by the television set. (See attached letter of March 28, 1988 from Zenith.)

The staff has examined Zenith's files regarding these incidents. Even if all of these fires were caused by Zenith televisions, a highly questionable proposition, the staff does not discern a pattern of failure in the data. The incidents cover different models of television produced over more than ten (10) years from 1971 to 1982. There does not appear to be any commonality in components or causation in the incidents.

Furthermore, we believe that for at least some of these incidents, Zenith has made a convincing argument that the television was the victim and not the cause of fire.

CONCLUSION

Having carefully examined the NPR series, technical and liability information from Zenith, economic and injury data sources and the Commission's own files, the staff concludes the following:

a) There is no reason to conduct further investigation of Zenith televisions manufactured prior to 1978.

b) The staff is evaluating the technical evidence and performance of the #9-160 module to determine whether there is reason to believe a problem exists in televisions incorporating this module from 1978-1982.

c) The staff is evaluating its prior decision regarding the 9-186 in light of the NPR report and additional technical data.

With continued cooperation from Zenith the staff investigation of these issues should be completed by May 31, 1988.

ZENITH FOLLOW-UP REPORT

I. Executive Summary

In its March 1988 report on the first phase of its investigation of allegations made about Zenith color television sets, the Commission staff stated that the available evidence did not support the inference that Zenith televisions manufactured in the early 1970s presented a greater fire hazard than those manufactured by other firms. The staff indicated, however, that it would continue to investigate charges that the Zenith #9-160 and #9-186 electronic modules used in televisions manufactured from 1978-1982 and 1982-1986 respectively, presented fire hazards.

The staff's investigation of these modules has been extensive, including review of technical and field incident information provided by Zenith, in-depth investigations of field incidents, and contacts with some Zenith repairmen and dealers. Based on the information currently available, the staff has concluded that the information obtained during its investigation does not support the conclusion that a safety-related defect exists in the #9-160 modules. Based on the information obtained and reviewed, the staff also reaffirms its prior determination that while a safety-related defect or defects exist in the #9-186 module, it is unlikely that injury will result, and, therefore, the defect does not warrant Commission action. However, the staff intends to request Zenith to continue to provide field failure information on the #9-186 module so that it can monitor the situation.

II. Factual Background

A. Introduction

Since it was established in 1973, the Commission has investigated fire incidents in television sets and successfully worked with industry to improve the pertinent UL standards to improve fire safety. In addition, the staff has assisted firms that undertook recalls of television sets with defects that could cause electric shock or fires.

In 1983, a fire occurred at the Texas State Capitol in Austin, that resulted in a death and extensive property damage. Although local fire officials blamed the fire on "smoking materials," and newspaper reports speculated on drug and alcohol use as contributing causes, investigators hired by the State Attorney General's office focused on a Zenith television as a possible source of the fire. The Commission staff investigated the Texas fire, met with the Attorney General's office and some of their investigators, and obtained incident and technical information from Zenith.

After evaluating this information, the Commission staff, without reaching any conclusions about the cause of the Texas Capitol fire, concluded that an electronic module known as the #9-186 sweep module, which was used in certain Zenith television sets, was defective. However, the staff concluded that this defect did not present a substantial risk of injury that would warrant action under the Consumer Product Safety Act.

In March 1988, National Public Radio ran an expose on Zenith television sets that appears to have been inspired by the Texas fire and the State's experts. At the March 15, 1988

Oversight Hearing, Senator Proxmire asked the staff to provide a report addressing allegations in the NPR report that Zenith television sets caused fires.

NPR reported allegations of several safety problems:

1. More than 1700 consumers complained to Zenith that their televisions caught on fire. (Transcript of March 14, 1988 broadcast, page 3.)

2. An electronic module designated as the #9-160 has had service problems and may have caused fires. (Transcript of March 15, 1988, page 6.) [This module was manufactured for use in new television production from 1978-1982.]

3. Another module, known as the #9-186, was implicated in a fire at the Texas State Capitol by the State's experts, and may present a fire hazard. (Transcript of March 15, 1988 broadcast at page seven.) [This module was manufactured and incorporated in Zenith color television sets from 1982-1986.]

The first allegation reported by NPR was addressed by the staff in its March 1988 report on the first phase of its investigation. That report concluded that Zenith's television sets did not present a disproportionate risk of fire over the time period in question. After evaluating the NPR allegations, Zenith incident data, and comparative incident and marketing data, the staff did not believe it had evidence of a particular defect or pattern of failure unique to Zenith television sets. Therefore, the staff has concentrated its efforts during the second phase of its investigation on the second two issues raised by the NPR reports.

The staff investigation has included a request for further information from the NPR reporter; a successful effort to acquire engineering documents, field failure analyses and other documentation from Zenith; investigation of field failures reported to the Commission; and contacts with some Zenith dealers and service personnel about these components.

The staff findings with respect to each module are presented below.

B. The #9-160 Electronic Module

In 1978, Zenith began producing a television with a chassis referred to as the X chassis. This chassis was modular, allowing Zenith to place most of the electrical components on modules that could be replaced by repairmen in the event that any one of up to hundreds of components on the board failed. These televisions included the #9-160 module.

The #9-160 module provides power to the picture tube and controls many of the picture tube functions. This module includes many components. Such parts may fail in use for a variety of reasons. Most of these failures do not have any safety consequences. Dealers are supposed to replace the entire #9-160 module when components on the module's circuit board fail. Due to the number of components on the board and the numbers of modules in use, the numbers of modules replaced over time has been large.

In an effort to determine whether these failures presented a fire safety hazard, the staff investigated among other things, the location of the module within the TV, the failure modes that have been encountered, and the reports of fire allegedly caused by the television.

Based on this investigation, the staff concluded that there was not sufficient evidence to support the conclusion that a safety related defect existed in these modules. Although component failures could lead to replacement of the module, most of these failures are not safety related and would only impair proper operation of the television.

Examination of the reported field failures and alleged fire incidents did not reveal a recurring scenario indicative of a pattern of hazardous #9-160 board failures. Even those failures that resulted in electrical arcing 1/ and damage to the module itself, did not appear likely to spread beyond the confines of the television. This is because of the location of the module, because the electrical circuit driving the arc fails, and because the plastic materials involved quickly extinguish themselves after the arc ceases. However, arcing could resulting smoke and sparking and would certainly cause concern to consumers who might think their television was on fire.

C. The #9-186 Module

The #9-186 module performs some of the same picture tube display control functions as the #9-160, but was used in later television chassis designs from 1982-1986 (starting with the Z chassis). Although it has fewer components than the #9-160 module, the #9-186 combines many different components that may fail for a variety of reasons. The #9-186 module is located in the rear of the television in various models with different screen dimensions. This module extends up to within two inches of the back cover in some models.

According to the NPR report [Transcript of March 15, 1988 broadcast, page 8], Texas State investigators implicated the 9-186 module as a possible cause of the Texas Capitol fire after finding reports in Zenith files of modules that had "charred and scorched." The staff investigated these charges in 1983 and has reviewed them again following the March 1988 NPR report.

The staff investigation of the Texas fire in 1983 gradually focused on one area of the #9-186 circuitry because the evidence suggested that a pattern of failure existed, and the location was near the top of the TV back. A wire coil with a ferro-magnetic core in the upper corner of the module, called the "linearity coil" may become loose where it is soldered to the circuit board. As a result, an open or intermittent contact may cause excessive current to pass through two resistors located next to the

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1/ Arcing occurs when current seeks an unintended "short-cut" from one conductor to another. It occurs most frequently when some circuit failure acts to interrupt the current in an inductive component (coils with or without magnetic cores). The likelihood of arcing is increased by a break in the circuitry or the build-up of conductive material between conductors, or the placement of conductors in close proximity to each other. Arcing can cause the generation of large amounts of heat and can cause damage to circuitry. The UL standard for television sets requires the use of circuit board material and components that will not sustain a flame once the source of heat has been removed.

linearity coil and thus cause severe overheating. These resistors may burn for 1 or more seconds as a result. In other cases, arc tracking may occur as the current seeks a new return path to its supply. Arcing can generate sufficient heat to damage the circuit board and components in the immediate vicinity.

Since in some models the #9-186 module stands only an inch or two below the back of the set, there have been several cases where the heat generated by the resistors burning or by arc tracking has melted holes in the top of the plastic back of the set. Consumers would see smoking, and possibly flames in some of these cases.

Zenith's position has been that such #9-186 board failures cannot cause fires because the plastic of the cabinet back enclosure meets Underwriters Laboratories (UL) standards for flame retardance. The staff has concluded that although the cabinet will resist burning and will not sustain flame once a heat source is removed, in some remote circumstances sufficient heat could escape the cabinet so that a highly combustible item close to the top of the back could be ignited. There is some evidence that this may have occurred in at least two instances.[2]

Nevertheless, the staff has concluded that it is unlikely that this problem will result in injury. The staff determination is based on the following:

1) Only a small number of #9-186 modules are likely to fail in a manner that could cause burning of the resistors or prolonged arcing--the field failure data indicates that those TVs manufactured from January-August 1982 experienced the higher number of such failures [3],

2) Few of these failures would generate enough heat to ignite materials placed close to the set back,

3) The reported damage has occurred at the top of the rear of the television set cabinet. There are relatively few situations (such as highly combustible drape material directly behind the television, or paper on top of the back cover) in which items outside of the television set might be ignited.

4) Even in the event of such a failure, it usually will occur when the television set is in use, which reduces the likelihood that the television will be unattended and that a fire would remain undetected until it is out of control.

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[2] In one incident, paper and plastic were found imbedded in the hole melted in the top of the set back. There is no indication that a broader "fire" occurred. In a second incident, it appears that the television was pushed up to some curtains. The curtains apparently were ignited by the #9-186 board failure. Although there was some fire damage to the home, no-one was injured. Based on the information available to date, the staff is unable to conclude that this failure has caused other fires, but does not totally rule out the possibility.

[3] Most of the incidents of #9-186 board failure involve televisions manufactured before September 1982. Design changes to improve the resistors and ultimately to remove the resistors entirely may be responsible for the drop-off in reported incidents.

Although the actual probability of such events is not known, taken in series, each of these contingencies further reduces the overall probability that a failure of the #9-186 module will result in injury.

Examination of the field data discloses strong evidence to support the conclusion that very few actual "fires" have occurred as the result of this #9-186 module failure scenario out of the millions of such television sets manufactured. Given that these television sets have already been in use for up to six years and that many of the modules have been replaced (for other reasons during routine maintenance) with improved versions, the staff believes that although future injury incidents are possible, the likelihood of such injury is remote.

III. Conclusion

The staff evaluation of the allegations made in the NPR series is essentially complete. Based on the information obtained to date, the staff concludes that the evidence does not support the conclusion that a safety related defect exists in the #9-160 electronic modules. Although the staff found evidence of a defect in the #9-186 sweep module, it believes that injury is unlikely and, therefore, does not believe television sets with such modules present a substantial risk of injury.

The staff has requested Zenith to keep it informed of any future incidents involving television sets with the #9-186 module to insure that it will be aware if a pattern of incidents does develop.

ALL-TERRAIN VEHICLES

Mr. Scanlon, let me ask you now about an issue that has been of concern to all of us for some time. That is the all-terrain vehicle. Since 1982, there have been about 900 deaths due to ATV's. Almost half those killed were under the age of 16, children. How much has been spent on the ATV effort to date?

Mr. SCANLON. $4.4 million, approximately.

Senator PROXMIRE. $4.4 million?

Mr. SCANLON. Correct.

Senator PROXMIRE. In December, a preliminary consent decree was filed which ended the sale of three-wheeled ATV's. Have the mandates in the preliminary consent decree been implemented by the industry?

Mr. SCANLON. Yes; they have.

Senator PROXMIRE. They have.

Mr. SCANLON. And, as I had mentioned earlier, Senator, the Justice Department, on our behalf, filed the final consent decrees last night.

PRELIMINARY CONSENT DECREE

Senator PROXMIRE. Could I ask Commissioner Graham, can you tell us why you voted against the preliminary consent decree?

Ms. GRAHAM. I felt it didn't go far enough. I was very concerned about recalling the three-wheelers in the market now. They amount to about 1½ million. I feel consumers who own those vehicles have a right to a reasonable recourse.

Senator PROXMIRE. Do you still feel that way?

Ms. Graham. Yes; I do.

Senator PROXMIRE. Commissioner Dawson, I understand that back in December 1986, you voted for a refund provision. Why were you willing to vote for the preliminary consent decree when it did not contain the refund?

Ms. DAWSON. I supported the preliminary and the final consent decree. I believe that it does contain a great deal of protection for the consumer. In any negotiation there has to be give-and-take on both sides; I feel that we got the best that we could for the consumer. I support the final consent decree.

I regret we didn't get the refunds, and I still feel that it would have been fair for the industry to do that.

Senator PROXMIRE. Would you support legislating a refund by the Congress?

Ms. DAWSON. That would be something that Congress would have to decide.

Senator PROXMIRE. Do you recommend it?

Ms. DAWSON. I am in favor of the industry taking that position.

Senator PROXMIRE. Do you recommend it to the Congress if we make it a law?

Ms. DAWSON. I think that I am on record in favor of doing something, whether it is congressional or whether it is by the industry. There is a lawsuit, by the way, that has been filed, a class action lawsuit on behalf of owners of ATV's. There may be a court decision in that case.

Senator PROXMIRE. Chairman Scanlon, how do you stand?

Mr. SCANLON. At this point, Senator, I would not be for a legislatively induced refund. I think we should give the consent decrees that were signed last night a chance to see how many actual deaths and injuries are reduced because of the extensive components of those decrees.

DECREE EXTENSION

Senator PROXMIRE. The preliminary consent decree was to be incorporated into a final decree and submitted to the court for approval within 45 days of the preliminary decree. The court later approved a 3-week extension and then another extension of 1 week. Why were these extensions necessary?

Mr. SCANLON. One of the reasons, Senator, was that they had a change in judges. They changed judges twice before the case was given to Judge Gesell.

Senator PROXMIRE. Was that really the sole reason as far as you know?

Mr. SCANLON. As far as I know, and in addition, it is a very complicated case. The final decree has 150 pages to it.

Senator PROXMIRE. Is it true that you agreed to the preliminary consent decree route because the section 12 imminent hazard action you referred to the Department of Justice was weak and could not be won in court, and if so, why do you think the Justice Department would file a section 12 complaint if they didn't think they could win the case?

Mr. SCANLON. The judge hasn't signed the final consent decrees, so I probably should not answer until that time. We will be relying on the complaints. I would be happy to furnish a written response to you once they are signed.

FINAL CONSENT DECREE

Senator PROXMIRE. As you indicated, a final consent decree was filed late yesterday.

Mr. SCANLON. Last night late.

Senator PROXMIRE. Do all three Commissioners endorse the decree?

Mr. SCANLON. The vote was 2 to 1. Commissioner Graham did not vote in favor.

Senator PROXMIRE. How does the final decree differ from the preliminary decree?

Mr. SCANLON. They are quite similar, Mr. Chairman. One controversial component was deleted. It was called a safety verification form, which required the consumer to initial several items—several warnings—that he or she were made aware of by the dealer. There was considerable concern on the part of some that this would hurt product liability cases that would be filed. Because of that, it was deleted.

CONSENT DECREE COSTS

Senator PROXMIRE. How much are you budgeting to enforce the consent decree?

Mr. SCANLON. $100,000 a year, approximately.

Senator PROXMIRE. I am going to have to go to the floor. I am going to ask Senator Domenici if he would take over for a few minutes. I will be gone about 10 or 15 minutes.

Senator DOMENICI. I am supposed to be at another hearing, but I will do what I can.

Senator PROXMIRE. If you have to leave, take a recess. But I will return.

Senator DOMENICI [presiding]. Fine.

ATV INJURY STATISTICS

Let me indicate, Mr. Scanlon and members of the Commission, that I came to the hearing to inquire about a situation on the ATV's. I have just listened to the chairman, and he has asked most of the questions. But I would ask you this: Could you provide the subcommittee with your latest data on injuries and fatalities associated with all-terrain vehicles?

Mr. SCANLON. We would be happy to, Senator.

Senator DOMENICI. How long would that take?

Mr. SCANLON. I can give you figures as of September 4, 1987. The total number of deaths as of that date were 883, and the number of estimated possible emergency room treated injuries was 349,100.

Senator DOMENICI. 349,100.

Mr. SCANLON. Going back to 1982.

Senator DOMENICI. Do you have a breakdown of these by age group?

Mr. SCANLON. We can provide that for the record.

Senator DOMENICI. Would you do that?

Mr. SCANLON. Yes; be happy to.

Senator DOMENICI. Do you know how many of these were associated with three-wheelers and how many with four-wheelers?

Mr. SCANLON. Yes; we do.

Senator DOMENICI. That is not broken out of these numbers. Would you do that?

Mr. SCANLON. We can.

[The information follows:]

Tables showing deaths and injuries by age group, by three-wheeled and four-wheeled ATV's:

ATV-TREATED INJURIES (NEISS—1987) BY AGE

[In percent]

Age	Total	3-Wheel	4-Wheel
Under 12	17	18	14
12 to 15	24	23	29
16 to 24	36	38	33
24-plus	23	21	24
Total	100	100	100

ATV-RELATED DEATHS, 1986, BY AGE

Age	Percent of deaths	
	3-Wheel	4-Wheel
Under 12	11	18
12 to 15	25	35
16 to 24	35	22
25-plus	29	25
Total	100	100

ALL-TERRAIN VEHICLES

REPORTED DEATHS

	Total	3-Wheel	4-Wheel	Unknown	4-Wheel (percent)
1987	172	86	69	17	44
1986	294	212	75	7	26
1985	247	202	43	2	18
1984	153	141	10	2	7
1983	85	82	3		4
1982	26	25		1	
Total	977	748	200	29	

ESTIMATED HOSPITAL EMERGENCY ROOM TREATED INJURIES

	Total	3-Wheel	4-Wheel	4-Wheel (percent)
1987	77,100	49,300	27,800	36.0
1986	86,400	67,500	18,900	21.9
1985	85,900	74,300	11,600	13.5

LITIGATION PROBLEMS

Senator DOMENICI. With most of the vehicles at issue being made in Japan or made here by one of their domestic subsidiaries, is there any problem with American citizens litigating the issue of liability because they are foreign manufacturers?

Mr. SCANLON. None that I am aware of.

Mr. LACY. If I can answer the question, Senator, all of the Japanese manufacturers have U.S. corporations that serve as distributors for the products that have a great deal of assets in their own right in the United States. So there is not a problem in that vein.

There might be a problem in attempting to assert jurisdiction over the Japanese manufacturers themselves. Our service of process is governed by certain treaties that the Japanese have taken reservations to, but nonetheless, their U.S. corporations are certainly within the jurisdictional reach of U.S. consumers.

Senator DOMENICI. Do you know if reservations with reference to process and jurisdiction or any other aspects of our judicial process relating to discovery for liability are in any way impeded because the companies are Japanese?

Mr. LACY. I can say that in the context of our settlement, this has not been a problem. With respect to private litigation by consumers, I can only say that we have had reports that discovery has, in some cases, been frustrated by this argument of the reservation from the service of process treaties.

I don't know how to suggest that should be treated, because it is a matter that deals with the international relations between the two countries, but I can say that these United States corporations of the Japanese manufacturers do have substantial assets and certainly, if there were to be some overt effort to thwart the appropriate legal discovery process, there would be remedies for consumers.

PRODUCT LIABILITY

Senator DOMENICI. If this Senator or this subcommittee were interested in determining the extent to which, if any, an American citizen's opportunities to litigate were inhibited in relation to a Japanese company that makes ATV's versus an American company that produces motor vehicles, to whom would we inquire?

I want to say that I don't believe there should be any immunity from suit and any inhibition on an American citizen suing in this case any more than in the lengthy suits against Ford Motor Co. that occurred for years over a system failure. You are all aware that some of those cases took 8 or 9 years to litigate.

We should have the exact same rights in this case, it appears to me. To whom would we inquire as to what that situation is?

Mr. LACY. There are two groups. There is an organization of product liability lawyers that have been focusing on all-terrain vehicle cases, and we would be pleased to submit their address and contact person to the committee.

There is also a nonprofit organization based here in Washington that is pursuing a class action suit against the all-terrain vehicle manufacturers which has been filed in Philadelphia. I know that they are involved in discovery right now, and perhaps the committee might want to inquire. The committee might want to inquire to the defendants themselves in this case, to the U.S. representatives of these Japanese manufacturers and inquire as to what difficulties they have been confronted with, as well.

Senator DOMENICI. Might I ask the Chief Counsel, in the absence of the chairman, if you have an opinion as to whether it would be worthwhile to get these groups to furnish us as much information as they can on this issue. Even though it is an authorizing issue, we are spending a lot of money to address the problem. All parties have tried to do what they perceive to be best, but we must protect the rights of American citizens.

It seems to me that if the Japanese are going to sell these kind of vehicles, they ought to be just as liable in every respect, and subject to our legal process, as Ford Motor Co. or General Motors.

Mr. LACY. Let me also suggest that the General Counsel's Office of the U.S. Trade Representative's Office be involved in your search in this regard since that is the agency responsible for these.

Mr. VAN DER VOORT. Perhaps you could provide us with information after discussing this with appropriate parties.

Mr. SCANLON. We would be happy to.

Senator DOMENICI. Would you do that? I would appreciate it.

[The information follows:]

ADDRESSES FOR PRODUCT LIABILITY GROUPS

Product Liability Group [ALTA], Sharon Goins, 1050 31st Street NW, Washington, DC, 20007-4499, (202) 965-3500; Trial Lawyers for Public Justice, Arthur Bryan, 2000 P Street NW, Suite 611, Washington, DC, 20036, (202) 463-8600; and U.S. Trade Representative, Office of General Counsel, 600 17th Street NW, Washington, DC, 20506, (202) 395-3150.

RECALLS

Senator DOMENICI. Mr. Lacy, I could be wrong, but I am informed that in statements to the press you claim that the Commission had backed away from an immediate recall because the Department of Justice advised that such a recall could lead to several years of litigation with the ATV makers. For example, you told, as I understand it, the Philadelphia Inquirer:

> If we had ordered a recall with an uncertain outcome in court, we might have been faced with another quarter million new injuries and 750 more deaths and no remedies in place.

I wonder; don't you think this kind of statement was a bit premature prior to the issuance of the final consent decree?

Mr. LACY. No; the statement is accurate, and it has been published before. The Commission has been through extensive congressional oversight in this regard and the statement has been made before.

The fact of the matter is that if the Commission must rely on this complaint, which it is prepared to advance along with the Justice Department, there will likely be 3 to 5 years of litigation, and this has been reported before to the Congress, and there is likely to be as many as 7,000 injuries per month per year, if that litigation is extant, and 250 deaths a year for the entire term of that litigation without any one remedy being put in place.

So certainly, one of the important issues that the Commission has been confronted with is making a choice: whether or not to opt for immediate relief, right now, up front, by settling this case out of court, or by relying on its complaint and litigating this matter with no remedies in place.

It is a real tough decision for the Commissioners to make, and I think that the consensus of the Commission was to opt for immediate relief and to get some remedies in place now to assist consumers in dealing with ATV's.

RESALE OF THREE-WHEELERS

Senator DOMENICI. Since we are dealing with an awful lot of technical issues and litigation and consent decrees, could I ask the Chairman and members of the Commission a layman's question.

What is the intention of the Commission as it perceives its jurisdiction with reference to the further sale of these three-wheelers in the United States? What is your goal in serving the American public? What do you want to happen?

Mr. SCANLON. Well, the decree that was signed last night forbids dealers from selling three-wheelers.

Senator DOMENICI. Period.

Mr. SCANLON. Period. Now, there were about 40,000 three-wheelers on dealers' selling floors when the preliminary consent decree was signed. Those are not being sold. We have sent our enforcement people out to dealerships to make inspections, and the compliance with the preliminary consent decree was quite high.

Senator DOMENICI. So in summary, as the advocate of the American people on consumer safety, you have concluded that they should not be sold in the United States any longer, is that correct, period?

Mr. SCANLON. No new three-wheelers can be sold. Four-wheelers can be sold.

Senator DOMENICI. Did you have something to add?

Mr. LACY. Well, the four-wheelers can be sold, but only under circumstances of adequate notice, warnings to consumers, and an extensive training program. As a matter of fact, in the training program that the government has imposed on the industry, we put in place for 10 years a national headquarters that would be paid for by the Japanese defendants that would include nine professional staff members and another layer of regional offices with six full-time professionals, regional administrators, and training to be delivered at 350 locations around the country.

Every purchaser of an ATV from now, for the next 10 years and past purchasers going back to December 30, 1986, will be entitled to the training for free. They would also be entitled to an incentive for training of $50 in cash, a $100 savings bond, or a merchandise certificate equal to $50 in cash.

So one of the most important aspects of the ATV task force report, just briefly, was the fact that our experts found that an ATV rider who had 1 year's worth of rider experience was 13 times less likely to be hurt on an ATV than someone riding it in the first month of use. Our goal here is to put a strong training program in place with incentives so that consumers will take it so that we can reduce the current unreasonably high levels of injuries down to reasonable proportions.

FOUR-WHEELED ATV'S

Senator Domenici. I am not an expert on this issue, but with reference to the three-wheelers, you have been very forthright, and I understand your prescription.

With reference to the four-wheelers, I don't quite understand the situation. Are they more dangerous than the average car being sold in the United States?

Mr. Lacy. Well, I don't think we have a comparative statistic along that line, but we do have a statistic that compares the relative safety of three-wheelers to four-wheelers, and a three-wheeler is one and one-half to two times more likely to be involved in an injury than a four-wheeler. They are a relatively safer vehicle.

TRAINING AND LICENSING

Senator Domenici. I wonder if the average automobile that is being sold to the American people were found to be as unsafe as the four-wheel ATV, would you have a safety program to educate the drivers, or would you prohibit them?

It seems to me that the driving of a vehicle is a rather—I am sorry for the word—but it is a rather fungible thing. You can train everyone you want, but if you have got a four-wheeler around that is dangerous, people are going to drive it whether or not they are trained. If it is that dangerous, why are we letting them sell ATV's?

Mr. Lacy. Well, you make a good point, if I could respond. Certainly, we don't allow, state governments don't allow individuals to drive automobiles unless they have had training or unless they meet a minimum age requirement. That is done by state law.

The federal government imposes a series of regulations on automobiles that relate to whether or not they are equipped with seat belts or whether or not they have certain types of safety lighting, so on and so forth. The same analogy can apply with respect to ATV's. What the federal government is doing is putting into practice a series of consumer warnings and consumer alerts that will deal with the problem of misadvertising as perceived by the Commission.

We have also restricted the marketing of these vehicles, the adult-sized vehicles, to only individuals aged 16 and above.

So we put in there minimum operating ages for marketing the vehicles. But just as if you were to hand your keys to an untrained 13-year-old child and ask that child to drive your car, the likelihood being that the child could end up in injury, if you were to give the keys to an adult-sized four-wheel ATV to a 13-year-old who is untrained, there is a likelihood of injury.

What we are saying is that the federal government must respond, and the state governments must respond, as well, by putting into place minimum age requirements and other regulations, including mandatory training, in the same way that we have mandatory training for driver education in automobiles.

Senator DOMENICI. Again, I am not involved in the authorizing legislation, but let me suggest, based on what I know, that I think your argument is very fallacious. I don't find it at all persuasive, because I think there is a great difference between your analogy of people that are not licensed driving a safe automobile and having an inherently dangerous vehicle around that only trained people should drive. I think there is a basic difference.

Again, I have plenty to do around here, but I am intrigued with this issue. I really don't like the conclusion. I think to have two tiers of licensing and safety on vehicles, one for these strange vehicles and the other for everything else, just isn't going to work, and that is my honest view of it.

I hope people in the audience who sell them don't think I am some kind of a wacko. I am a pretty reasonable guy, but I just don't understand the underlying principle. I hope we have somebody look at it a little more. Do you have anything else to discuss with these witnesses?

Mr. VAN DER VOORT. No; I don't believe we do.

Senator PROXMIRE [presiding]. Pete, thank you very much.

Senator DOMENICI. Mr. Chairman, in your absence I became extremely cantankerous [laughter].

Senator PROXMIRE. Well, that is no change. [Laughter.]

No; we all love Pete Domenici. He is one of the real best. Did you ask on the same issue I was talking about?

SUMMARY OF ATV DISCUSSION

Senator DOMENICI. Yes; I did not ask this question, and you might. Let me just tell you, Mr. Chairman, what I inquired about. I inquired specifically about the status of three-wheel ATV's in the future, and I got a very forthright answer: They are going to be prohibited from sale, at least in the future. I then moved to the four-wheelers, and while I am not an expert, I got an answer that they are going to still be for sale under some very refined federal safety licensing process. My conclusion was that I didn't agree that that was the way to handle four-wheelers, but that is not the subject for today's hearing.

Frankly, it has sparked my interest, and so I will follow up a little bit on this subject. I think that if four-wheelers are substantially more dangerous than an American four-wheel automobile, serious consideration ought to be given to barring their sale.

ATV RECALL

Senator PROXMIRE. Let me ask. The three-wheelers are proven dangerous. We know that they have caused fatalities, right?

Mr. SCANLON. True.

Senator PROXMIRE. As I pointed out, about half of them, more than half of them, are children; they are less than 16 years old. Is there any prospect, any way that they could be recalled, the ones that are out there that are in the hands of consumers? It seems to me that is a real hazard to life.

Mr. SCANLON. That was an option, Senator, and the Commission did not take that option, and I believe the reason being that we had a very extensive 18-month study conducted by the career CPSC staff representing various disciplines.

It was their finding that there was no defect in the vehicle. So for us to use the statutes that we operate under, we would have had to prove a defect, and it wasn't there.

Senator PROXMIRE. Well, were the deaths caused by a defect or just by the whole dangerous aspect of handling it, even if you had one was properly made?

Mr. SCANLON. There are various reasons for the death toll. We found that alcohol use was involved in 30 percent of the deaths; usage of ATV's on public roads accounted for 45 percent of the deaths; and another 25 percent of the deaths involved riders using paved roads.

Senator PROXMIRE. That is 100 percent. Or were some of them——

Mr. SCANLON. Some could be drunk on a paved road. You can see that there is a high degree of consumer misuse of this vehicle.

Ms. DAWSON. Senator, if I might comment on that, I think one of the biggest problems was the marketing of these vehicles. They were marketed as something fun and easy to use for the whole family. What we found in our extensive study is they are unique and complex and do require a high degree of skill in operating. Whether or not there is a specific mechanical defect is, I suppose, debatable, but the problem is that people didn't understand that and the manufacturers did not warn them about this unique characteristic.

Senator PROXMIRE. Maybe we ought to consider the possibility of congressional action of some kind to at least provide the most extensive possible warning. It is terrible that we have vehicles out there that are killing children.

Ms. DAWSON. I agree.

Senator PROXMIRE. They are still out there, and how many are there?

Ms. Dawson. There are almost 3 million.

Mr. Murr. About 2.3 million

Mr. Scanlon. Three million.

Senator Proxmire. That is worse than having a loaded revolver on your person all the time.

Mr. Lacy. The consent decree that was filed last night does provide for extensive warning. It provides for approximately $8.5 million of corrective advertising, which would include television advertising on national television; for example, the World Series, the evening news programs.

NOTIFICATION TO CONSUMERS

Senator Proxmire. I would think one thing. Is there any way that you can determine who owns them and to tell them directly?

Mr. Lacy. We have done that already. Under the preliminary consent decree, almost, well, between 1½ and 2 million letters were sent to past purchasers listing, once again, at a minimum, 13 different safety warnings in connection with the vehicles. Now under the final consent decree, letters will again go out to those same past purchasers, which will include not only new safety warnings but new owners' manuals with more improved and conspicuous warnings and new warning labels with instructions on how to put them on the machines so that as these machines are transferred among purchasers in the used market that might not have had the upfront warnings, they will have had these new warning labels affixed to the machines.

HAZARD PROGRAM CUTS

Senator Proxmire. Good.

CPSC received a general cut of $923,000 for fiscal year 1988 in the continuing appropriation resolution. Although the conferees urged that the $992,000 cut be allocated so as to minimize the adverse impacts on the hazard and enforcement programs and on Commission employees, the Commission decided to reduce hazard program contract funds by 65 percent.

Why was it decided to so severely cut hazard program contract funds?

Mr. Murr. Our real problem in addressing the reduction from 1987 to fiscal 1988 is that very little of our money is discretionary, if you will. By that I mean $23 to $24 million of our funds are for salary expenses. If you take some of our ongoing programs, which are an all-or-nothing prospect, such as the NEISS system which we spoke about earlier, you have to turn off the entire system. You can't pare it back.

So the only area that we are left with to meet a reduction of that sort is in our contract funding, and consequently, that is where we had to look to to meet the lower mark. We do have plans for fiscal 1988, and I am sure we will do the same thing in fiscal 1989 to restore some of these funds, if possible.

In addressing the cutback, we built the worst-case scenarios.We assumed the highest estimate for each item covered in the budget.

We have plans now, as hopefully, these scenarios will not all turn out to be the worst case, to restore funding as it becomes available to the hazard contracts that were cut. We believe we will restore some hazard contracts in 1988.

I think the same thing will be true in 1989. We are just being conservative in our estimates.

Senator PROXMIRE. In responding to CPSC's proposed fiscal year 1988 operating plan of this past February, Chairman Boland and I approved the plan subject to several requirements. We directed that any funds becoming available over the course of the year is to be used to restore these hazard program contract funds.

How much do you expect to be available for that purpose in fiscal 1988?

Mr. MURR. We hope to restore perhaps all, if not the vast majority, of the hazard contracts that were reduced or put on hold. What we will do is continue the processing of the contracts up to the point of award so that they may still be awarded if funds become available. I think most of the contracts will be awarded by the end of the year.

I can't give you an exact dollar amount, but, hopefully, it will be somewhere in the $250,000 to $500,000 range.

Senator PROXMIRE. With respect to program contract support, although you had originally requested $873,000 in fiscal 1988 you cut the program, as you say, by 65 percent to $303,000 in your fiscal year 1988 operating plan. You are requesting even less for hazard program contract program in fiscal 1989, $254,000 to be exact. That is quite a drop in the fiscal year 1987 level of $1.8 million.

How do you account for this 86-percent drop in the hazard program contract support from fiscal 1987 to 1989?

Mr. MURR. Again, it goes to what I said before. The only place we could look to reduce our funding was in contract dollars. Our only other alternative would be reducing our employment, which would be not only, we think, detrimental, but extensive and would require a reduction in force.

We would like to hold on to our staff, because it takes awhile to train them. These people, a number of whom have been with the agency a long time, are really experts in their area. In many projects, the absence of contract funding, although it may slow the project down, doesn't really make it not worthwhile. There are things that the staff are doing to continue work on the projects.

Senator PROXMIRE. The cut is so drastic. That is an enormous cut, almost 90 percent. You virtually wiped it out.

Mr. MURR. Yes. Well, in our September submission, for example, we had asked for about $36 million. If you have to come down to a little less than $33 million, again, other than firing people, we weren't able to find any other areas to reduce.

Senator PROXMIRE. The overall budget was reduced by what, 10 percent?

You cut this part of it by 90 percent. It took the whole brunt of it.

Mr. MURR. Yes. Again, in the last few years we have cut back in every other area possible, even down to supplies. This budget that you have in front of you has something very minimal, like $20,000 to $30,000, to buy equipment to support our laboratories.

We have had to cut many areas to the lowest possible level at which they can be maintained.

Senator PROXMIRE. As I understand it, the contract support request is 17 percent below the current level, yet the number of projects dropped by only 8 percent from 27 to 25. That means the cost of an average project will decline by about 10 percent. Why is that?

Mr. MURR. Most of our projects are hazard projects. The bulk of the work in these projects is in staff time. So the reduction in the contract money, while it may impair the project slightly or slow it down, does not completely stop work on the project. In the case of 1988, as we just said, we hope to restore some of these funds toward the end of the year. At most it could mean a delay of several months in the work of the project. It will not mean that the project completely ends.

Senator PROXMIRE. I am talking about the 1989 budget.

Mr. MURR. In 1989, the same thing holds true. We hope to be able to do in 1989 what we have planned for 1988. We have developed a worst-case scenario in how much we will need for salaries, et cetera, just to be sure that we are safe and within the limits of the Anti-Deficiency Act.

MEDIA-PUBLIC AFFAIRS MERGER

Senator PROXMIRE. Chairman Boland and I in our February letter responding to your proposed operating plan requested that all organization and personnel changes identified in the conference report be implemented fully in the immediate future. The conference report directed that the Office of Media Relations be combined with the Office of Public Affairs. Has that change been effected?

Mr. SCANLON. It will become effective March 27.

Senator PROXMIRE. It is going to become effective in less than 2 weeks?

Mr. SCANLON. That is correct, and we have notified the Commission of that organizational merger.

BUDGET FOR OFFICE OF GENERAL COUNSEL

Senator PROXMIRE. You are requesting $798,000 for your Office of General Counsel. That is a 42-percent decrease below your current level of $1,371,000. However, according to the chart on page 58 of your justification, it indicates no reduction in staffing between the 2 years. Can you explain how you can cut dollars by 42 percent without cutting any positions? If you can, that is something.

Mr. MURR. The majority is a reduction in that area because of the litigation support that we had in 1987 and 1988 for the ATV case. That is not assumed to be necessary in 1989.

BUDGET SUPPLEMENTAL

Senator PROXMIRE. What happens if it is necessary? Will you request a supplemental?

Mr. MURR. Within the budgeted amounts that we have, we don't see any way of covering the litigation costs should they be necessary. They have been estimated in the first 2 years alone to be about $5 million.

Senator PROXMIRE. That means you won't be able to litigate; you won't be able to act as an enforcement agency through the courts; is that right?

Mr. MURR. If we have to litigate, we would be asking for a supplemental. We have worked these figures out with the Justice Department. The first year alone is about $3 million in costs.

Mr. SCANLON. Total estimated costs for 3 years would be $10 million.

Senator PROXMIRE. Could the Justice Department pay for that?

Mr. SCANLON. They could, but they have advised us that this would be on our ticket.

Senator PROXMIRE. What does that mean, then, that you won't do it?

Mr. SCANLON. No; that means we would have to come back to the Congress and request a supplemental.

Senator PROXMIRE. You know it will be very hard to get a supplemental through. That means you won't get action.

Mr. MURR. To absorb litigation costs, our only alternative would be reducing employment, and we would also incur additional expenses just to do that.

Senator PROXMIRE. I am going to ask Mr. van der Voort to go ahead. Go ahead, Mr. van der Voort.

ATV LITIGATION COSTS

Mr. VAN DER VOORT. For the record, if necessary, can you tell us how much you have paid the Justice Department in 1987 and 1988?

Mr. LACY. For ATV's?

Mr. VAN DER VOORT. You say this additional money is necessary for litigation. You don't need the positions, but you needed the money. What was done with the money?

Mr. MURR. Oh. Well, we contracted with experts in various areas, an expert for labeling, an expert for training to help in not only developing a case, but we have used them in the final consent decree.

At the end of 1987 we obligated over $800,000 for that purpose, to develop both the complaint and, as I said, they were used to develop both the preliminary and final consent degrees as well.

Mr. VAN DER VOORT. And in 1988?

Mr. MURR. In 1988, so far we have spent approximately $200,000.

Mr. LACY. Tom is the expert in this area, but just to jump in for a second, we have contracted with experts for the purpose of corroborating our record for litigation purposes. It is a necessary expense. The CPSC has paid all of those expenses; the Justice Department hasn't.

Also, we have had our attorneys involved in the preparation of litigation and involvement in the final consent decree. That is not to say that

Justice hasn't been using resources. They have had as many as 10 attorneys at the Justice Department at any one time in the Civil Division working on this case. That doesn't account for the commitment; our expenditures here don't account for the total commitment of the federal government.

Mr. VAN DER VOORT. But they haven't billed you for those costs?

Mr. LACY. Absolutely not.

Mr. VAN DER VOORT. But they would bill you if they went to court.

Mr. LACY. No; they wouldn't.

Mr. VAN DER VOORT. What is the $2.5 million?

Mr. LACY. The question is the need for supplemental appropriation for automated litigation support on the Justice Department's end. We would have to have a rather extensive and elaborate automated litigation support system to support the litigation, because it would be extensive and complex litigation involving many documents.

Then our staff would need additional funds for whatever additional contracts might be necessary or for whatever additional travel might be necessary.

For example, venue in this case could be challenged. If we were to file the suit here in the U.S. District Court for the District of Columbia, the defendants, perhaps, might feel that there is a more appropriate forum, for example, in southern California, where their corporations are located.

This would be very expensive for the Commission, because it would be necessary for our in-house attorneys to work hand-in-glove with the Justice Department attorneys in southern California. So that would be the reason for a supplemental.

OGC SPECIAL ASSISTANTS

Senator PROXMIRE. Let me ask you a question on congressional intent here. The conference report directed that the Office of General Counsel be decreased by two Schedule A special assistant positions. I understand there is an effort to circumvent congressional intent by abolishing the two special assistant's positions only to reallocate the positions to staff attorney positions. Is that true?

Mr. SCANLON. That is not true. In fact, one attorney resigned effective February 27.

Mr. LACY. He handed in a pink slip.

Mr. SCANLON. There are two special assistants.

Mr. LACY. Two Schedule A's.

Mr. SCANLON. We have one more to go.

TRAVEL

Senator PROXMIRE. You are requesting a total of $725,000 in fiscal year 1989 for travel. That is the same amount as you are planning to spend in fiscal year 1988 but a 42-percent increase over the fiscal year 1987 levels. Why are your travel costs coming up so sharply?

Mr. MURR. Actually, we budgeted, in fiscal 1987, for about $700,000, about the same level. A few reasons why we didn't use that, some of the money was for cigarette safety purposes, which turned out not to be necessary, and we lapsed that.

Second, we like to budget a comfortable enough amount, because as you know, the agency is particularly reactive. So as things develop, we need to go out and investigate them; if they don't develop, then we don't need that money. There is usually a comfortable margin.

You would find in most years, if you compare the planned to the actual amount, we underrun it by a considerable margin. If we don't need it, we don't use it.

TRIP TO HAWAII

Senator PROXMIRE. I noticed that last August you spent several days in Honolulu as well as Hilo on the big Island of Hawaii to meet with the CPSC state designee and representatives from the Governor's office. Can you tell us precisely what was accomplished on that trip and how many meetings you had?

Mr. SCANLON. I believe I was in Hawaii for 4 days; it may have been 5 days. I gave five prepared speeches, and I would like to supply copies of those for the record. In addition to that, during the 4 days, there was an extensive press conference with the Governor's office there on the Commission's program for safety with older consumers.

I did meet with the state designee; I did meet with our representative; and I would be delighted to show you my schedule for the 4 days.

Senator PROXMIRE. In the light of budget constraints, could you have conducted your meeting with the CPSC state designee over the telephone and let the designee handle the speech to the Press Club and the meetings, especially the meeting in Hilo?

Mr. SCANLON. I could, but in addition to the meeting in Hilo, there were a number of other events relating to Commission projects.

Senator PROXMIRE. All right.

Follow up on that, Tom.

Mr. VAN DER VOORT. We are just curious as to the purpose of the trip to Hilo.

Mr. SCANLON. Hilo, there were two things. I did a seminar on Safety for Older Consumers with representatives from various aging groups from that island. I believe I was in Hilo all of 1 day. There was another meeting, and I will provide you the agenda for that, also.

Senator PROXMIRE. What was the total cost of the trip?

Mr. SCANLON. I would have to supply that for the record.

Mr. MURR. For the Commissioners' travel, in general, the last 3 years have been considerably lower than it was in the early eighties. For example, in 1984, the total for the Commissioners' travel was $48,000. In fiscal 1987, it was under $10,000.

I know that we had three Commissioners versus five, but if you even factor that in, the average per Commissioner in 1984 was about $10,000; it was about $3,000 in 1987.

Senator PROXMIRE. Frankly, I would have been more suspicious if you had gone to Hawaii in February. [Laughter.]

That is probably what I would have done.

Mr. SCANLON. When you see this agenda, Senator, all your suspicions will be relieved.

Senator PROXMIRE. Relieved or confirmed? [Laughter.]

Mr. SCANLON. Not confirmed. [Laughter.]

[The information follows:]

REMARKS OF TERRENCE SCANLON AT ANNUAL MEETING OF AMERICAN BAR ASSOCIATION, SAN FRANCISCO, CALIF.

AUGUST 11, 1987

IN THE SPIRIT OF SECTION 6(B) OF THE CONSUMER PRODUCT SAFETY ACT, WHICH ATTEMPTS TO ENSURE THAT INFORMATION DISSEMINATED BY THE CONSUMER PRODUCT SAFETY COMMISSION IS ACCURATE AND NOT MISLEADING, LET ME MAKE ONE THING CLEAR BEFORE I GO ANY FURTHER. I AM NOT A LAWYER. NOR DO I SPEAK LIKE A LAWYER, SO PLEASE FORGIVE THE LACK OF LEGALISTIC LANGUAGE TO COME. NEVERTHELESS, I WELCOME, AND AM HONORED TO HAVE, THE OPPORTUNITY TO SPEAK BEFORE THIS AUGUST ASSEMBLAGE OF ATTORNEYS ON THE SUBJECT OF CONSUMER PRODUCT SAFETY. NOT ONLY IS IT ONE OF MY FAVORITE TOPICS, BUT THE CHANCE TO EXCHANGE VIEWS WITH PEOPLE WHO CAN BE, AND OFTEN ARE, KEY PLAYERS IN THE FIELD IS MOST APPRECIATED.

SPEAKING OF PRODUCT LIABILITY, I AM REMINDED OF AN ARGUMENT I OVERHEARD NOT TOO LONG AGO BETWEEN A MANUFACTURER AND AN UNHAPPY CUSTOMER. NO SOONER HAD THE TWO MET THAN THE CUSTOMER WAS TELLING THE MANUFACTURER, "IF YOU DON'T MAKE GOOD ON THIS, I'LL TAKE YOU TO COURT.

BUT IF HE EXPECTED TO GET A RISE OUT OF THE MANUFACTURER, HE WAS MISTAKEN. ALL THAT GENTLEMAN SAID WAS, "I'LL SEE YOU THERE."

UNDETERRED, THE CUSTOMER WENT ON "AND IF I LOSE, I'LL APPEAL TO THE STATE SUPREME COURT." UNRUFFLED, THE MANUFACTURER COOLY RESPONDED, "WELL, IF THAT'S THE WAY YOU WANT IT, I'LL SEE YOU THERE TOO."

AT THAT THE IRATE CUSTOMER GOT EVEN ANGRIER. "AND IF I LOSE AT THE STATE SUPREME COURT, I'LL APPEAL TO THE U.S. SUPREME COURT," HE SCREAMED. TO WHICH THE MANUFACTURER RESPONDED, "OK, IF THAT'S THE WAY YOU WANT TO PLAY, I'LL SEE YOU THERE AS WELL."

BY THIS TIME THE CUSTOMER WAS PRACTICALLY BESIDE HIMSELF WITH RAGE. "AND IF I LOSE AT THE SUPREME COURT," HE SCREAMED, "I'LL TAKE THE CASE ALL THE WAY TO HELL."

THE MANUFACTURER PAUSED A MOMENT AND THEN SAID, "WELL, YOU WON'T SEE ME THERE BUT MY LAWYER WILL REPRESENT ME."

BEFORE YOU GET THE WRONG IDEA, LET ME ASSURE YOU THAT I HAVE THE GREATEST RESPECT FOR THE LEGAL PROFESSION AND THE ROLE IT PLAYS IN AMERICAN LIFE. INDEED, AS ALEXIS DE TOCQUEVILLE SAID OVER 100 YEARS AGO, "SCARCELY ANY POLITICAL QUESTION ARISES IN THE UNITED STATES WHICH IS NOT RESOLVED SOONER OR LATER INTO A JUDICIAL QUESTION." TODAY, THE SAME CAN BE SAID ABOUT PRACTICALLY EVERY OTHER TYPE OF QUESTION; THE GROWTH IN MALPRACTICE AND PRODUCT LIABILITY SUITS IS TESTIMONY TO THAT.

SUCH BEING THE CASE, LET ME START OUT BY GIVING YOU SOME IDEA OF THE STATUTORY FRAMEWORK UNDER WHICH THE CONSUMER PRODUCT SAFETY COMMISSION OPERATES. CREATED BY LAW IN 1972, THE COMMISSION IS GIVEN AUTHORITY TO REGULATE APPROXIMATELY 15,000 TYPES OF

CONSUMER PRODUCTS PURSUANT TO FIVE SEPARATE STATUTES -- THE CONSUMER PRODUCT SAFETY ACT, THE FEDERAL HAZARDOUS SUBSTANCES ACT, THE FLAMMABLE FABRICS ACT, THE POISON PREVENTION PACKAGING ACT AND THE REFRIGERATOR SAFETY ACT. THE BASIC RESPONSIBILITY OF THE COMMISSION IS TO PROTECT CONSUMERS AGAINST UNREASONABLE RISKS OF INJURY ASSOCIATED WITH CONSUMER PRODUCTS, BUT IT ALSO HAS A LEGAL OBLIGATION TO EDUCATE CONSUMERS ABOUT PRODUCT RELATED HAZARDS AND THEIR AVOIDANCE. IN ADDITION, THE COMMISSION IS CALLED UPON TO CONDUCT PRODUCT RELATED ACCIDENT RESEARCH AND TO PROMOTE UNIFORMITY IN THE REGULATION OF CONSUMER PRODUCTS.

TO CARRY OUT ITS DUTIES, THE COMMISSION HAS A WIDE ARRAY OF ENFORCEMENT TOOLS AT ITS DISPOSAL. THESE INCLUDE THE POWER TO: BAN A PRODUCT; ESTABLISH MANDATORY PRODUCT SAFETY STANDARDS OR REGULATIONS, ORDER THE REPAIR OR REPLACEMENT OF A PRODUCT, REQUIRE A REFUND FOR A PRODUCT, MANDATE THE LABELING OF PRODUCTS, ISSUE CONSUMER ALERTS AND COOPERATE IN THE DEVELOPMENT OF VOLUNTARY STANDARDS.

AT ONE TIME OR ANOTHER, THE COMMISSION HAS RESORTED TO PRACTICALLY ALL OF THESE REMEDIES OR SOME COMBINATION THEREOF. OBVIOUSLY, IF THE COMMISSION IS CONFRONTED WITH A SITUATION WHERE A VIOLATION OF ITS REGULATIONS HAS OCCURRED OR A SUBSTANTIAL PRODUCT HAZARD HAS BEEN UNCOVERED, AND THE COMPANY INVOLVED IS NOT WILLING TO REMEDY THE PROBLEM ON ITS OWN, THEN THE COMMISSION SHOULD, AND WILL, TAKE WHATEVER MANDATORY STEPS MAY BE NECESSARY TO REDUCE THE RISK. HOWEVER, IF THERE IS SOME DOUBT AS TO THE EXTENT OR SEVERITY OF THE SUSPECTED HAZARD, OR IF THE MANUFACTURER IS WILLING TO INSTITUTE REMEDIAL MEASURES VOLUNTARILY, OR BOTH, THEN THE COMMISSION MAY OPT FOR A MORE COOPERATIVE, LESS COMBATIVE APPROACH. NOT ONLY DOES COOPERATION PRODUCE PRODUCT SAFETY BENEFITS MORE QUICKLY AND WITHOUT LITIGATION, BUT IT IS LESS INTRUSIVE, MORE RESPONSIVE TO TECHNOLOGICAL CHANGE AND CHEAPER FOR ALL CONCERNED, CONSUMERS INCLUDED. NOW I REALIZE THAT SOME OF YOU MIGHT JUST AS SOON SEE A LITTLE LITIGATION EVERY ONCE IN A WHILE, BUT KEEP IN MIND EACH OF YOU IS A CONSUMER AND ULTIMATELY THE FINAL PURCHASER OF A PRODUCT PAYS FOR LITIGATION THAT MIGHT OTHERWISE ENSUE.

AT THIS POINT, I SHOULD MENTION THAT CONGRESS HAS FORMALLY ENDORSED THE IDEA OF PUTTING INCREASED RELIANCE ON THE VOLUNTARY, COOPERATIVE APPROACH. IN 1981, WHEN THE CONSUMER PRODUCT SAFETY ACT WAS LAST AMENDED, LANGUAGE WAS ADOPTED SPECIFICALLY REQUIRING THE COMMISSION TO DEFER TO A VOLUNTARY STANDARD WHEN (1) IT WOULD ADEQUATELY ELIMINATE OR REDUCE THE RISK OF INJURY AND (2) THERE IS THE LIKELIHOOD OF SUBSTANTIAL COMPLIANCE. SINCE THEN, MANY HAVE QUESTIONED THE WISDOM OF WHAT CONGRESS DID, BUT THERE ARE A NUMBER OF SOUND EXPLANATIONS. TO ELABORATE ON THE POINTS I JUST MADE, RECENT STUDIES SUGGEST THAT, ON AVERAGE, IT TAKES ROUGHLY TWO YEARS LESS TO DEVELOP A VOLUNTARY STANDARD THAN A MANDATORY ONE. MOREOVER, IN 41% OF THE VOLUNTARY STANDARDS CASES STUDIED, THE DEVELOPMENT TIME

WAS TWO YEARS OR LESS. IN ADDITION, A VOLUNTARY STANDARD IS MORE ADAPTABLE TO TECHNOLOGICAL ADVANCES THAT MAY ENHANCE THE SAFETY OF A PRODUCT FOR THE SAME REASON IT IS EASIER TO IMPLEMENT INITIALLY; THERE ARE FEWER PROCEDURAL HURDLES TO CLEAR. ON TOP OF THAT, VOLUNTARY STANDARDS ARE OFTEN CHEAPER, NOT ONLY FOR THE AFFECTED INDUSTRY, BUT ALSO FOR THE COMMISSION. AN EXCELLENT EXAMPLE IS THE VOLUNTARY STANDARD THAT WAS DEVELOPED TO DEAL WITH CHAIN SAW KICKBACK. BY THE TIME THE WORK WAS COMPLETE, THE INDUSTRY HAD PICKED UP ROUGHLY TWO-THIRDS OF WHAT TURNED OUT TO BE A $15 MILLION TAB. HAD A MANDATORY STANDARD BEEN RESORTED TO THROUGHOUT, THE TAXPAYER ULTIMATELY WOULD HAVE SHOULDERED A MUCH LARGER PORTION OF THE TOTAL COST.

BUT PERHAPS THE MOST IMPORTANT ARGUMENT FOR THE USE OF VOLUNTARY STANDARDS IS THAT THEY USUALLY GENERATE SAFETY BENEFITS MORE QUICKLY. INSTEAD OF POTENTIAL REMEDIES BEING PUT ON HOLD WHILE THEIR NECESSITY IS BEING LITIGATED, SAFETY MEASURES START GOING INTO EFFECT AS SOON AS THE STANDARD IS AGREED TO, WHICH, AS I INDICATED BEFORE, GENERALLY OCCURS WELL BEFORE A MANDATORY RULE CAN BE SUCCESSFULLY PROMULGATED.

SOME CRITICS OF VOLUNTARY STANDARDS HAVE SUGGESTED THAT THEY AMOUNT TO SELF-REGULATION AND ARE, IN REALITY, NOTHING BUT A SHAM. HOWEVER, THE FACTS SUGGEST OTHERWISE. FOR ONE THING, THE COMMISSION IS ACTIVELY ENGAGED IN MONITORING COMPLIANCE WITH VOLUNTARY STANDARDS AND, IF COMPLIANCE APPEARS TO BE

DECLINING, THE CPSC CAN ALWAYS INITIATE (OR REVIVE) A MANDATORY PROCEEDING. AND IF THAT PROSPECT IS NOT ENOUGH TO ENCOURAGE COMPLIANCE -- WHICH IT USUALLY IS -- THEN THERE IS ALWAYS THE THREAT OF PRODUCT LIABILITY SUITS TO SPUR MANUFACTURERS AND DISTRIBUTORS ON. MOREOVER, MANY BUSINESSMEN HAVE DISCOVERED THAT PROMOTING PRODUCT SAFETY CAN PAY HANDSOME DIVIDENDS: GOOD PUBLICITY AND INCREASED SALES.

BUT PERHAPS THE BEST EVIDENCE OF ALL CAN BE FOUND IN THE RECORD OF VOLUNTARY STANDARDS TO DATE. TAKE CHAIN SAWS AGAIN. NOT ONLY IS COMPLIANCE WITH THE CHAIN SAW STANDARD ESTIMATED TO BE NEARING 100%, BUT THE COMMISSION STAFF PROJECTS THAT THE STANDARD WILL REDUCE THE 22,000 INJURIES PER YEAR TOLL PREVIOUSLY ASSOCIATED WITH CHAIN SAW KICKBACK BY 70-80%. LIKEWISE, IT IS NOT UNREASONABLE TO ASSUME THAT THE VOLUNTARY PROGRAM FOR UPHOLSTERED FURNITURE HAD SOMETHING TO DO WITH THE 41% DECREASE IN THE NUMBER OF CIGARETTE IGNITED FIRES ASSOCIATED WITH SUCH FURNITURE BETWEEN 1980 AND 1984, AND THE 24% DECREASE IN THE NUMBER OF DEATHS ASSOCIATED WITH SUCH FIRES. WHY? BECAUSE THE CIGARETTE IGNITION RESISTANCE OF UPHOLSTERED FURNITURE MANUFACTURED TO UFAC REQUIREMENTS HAS INCREASED TO APPROXIMATELY 68% ACCORDING TO CPSC TESTS.

ANOTHER CRITICISM ONE HEARS OF VOLUNTARY STANDARDS FROM TIME TO TIME IS THAT THEY DO NOT PRE-EMPT STRICTER STATE OR LOCAL REGULATIONS DESIGNED TO ADDRESS THE SAME PRODUCT RISK. PERSONALLY, I HAVE A LOT MORE SYMPATHY

WITH THIS CONCERN THAN SOME OTHERS, ESPECIALLY IF THE PRODUCT IN QUESTION IS BEING PRODUCED BY A SMALL BUSINESS WHICH CAN'T AFFORD TO PRODUCE A DIFFERENT VERSION FOR EACH STATE. HOWEVER, THE COMMISSION HAS NOT YET BEEN ABLE TO FIND A WAY TO SATISFACTORILY ADDRESS THIS CONCERN WITHOUT APPEARING TO ENDORSE THE PRODUCT IN QUESTION. FORMAL DEFERRAL TO A VOLUNTARY STANDARD IS ONE OF THE APPROACHES THAT HAS BEEN CONSIDERED, BUT SINCE NO COURT CASE HAS EVER LITIGATED WHAT PRE-EMPTIVE EFFECT SUCH A PROCESS MIGHT HAVE, THERE IS NO WAY OF KNOWING WHETHER IT WOULD BE EFFECTIVE. OTHER POSSIBILITIES HAVE BEEN CONTEMPLATED AS WELL, BUT, AT THE MOMENT, I SEE NO SIGNS OF AN IMMINENT OR DRAMATIC BREAKTHROUGH. NEVERTHELESS, I BELIEVE THE CONCERN IS SIGNIFICANT ENOUGH THAT THE SEARCH SHOULD CONTINUE. IN FACT, IF ANY OF YOU HAVE ANY IDEAS FOR RESOLVING THIS DILEMMA, THE COMMISSION WOULD REALLY APPRECIATE HEARING THEM. AFTER ALL, IT IS THE CONSUMER WHO ULTIMATELY BEARS THE BURDEN OF A NEEDLESS MULTIPLICITY OF CONFLICTING PRODUCT SAFETY REGULATIONS.

YET A THIRD CONCERN ABOUT VOLUNTARY STANDARDS THAT I HEAR EXPRESSED IS THAT, WITH ALL THE POWERS THE COMMISSION HAS AT ITS DISPOSAL, THEY AREN'T REALLY VOLUNTARY. HOWEVER, THOSE WHO SHARE THAT CONCERN SHOULD ASK THEMSELVES THIS; WHAT IS THE ALTERNATIVE? IF THERE IS A GENUINE PRODUCT SAFETY PROBLEM, DOING NOTHING IS NOT A RESPONSIBLE OPTION. CONVERSELY, MANDATORY STANDARDS BY DEFINITION INVOLVE A

GREATER DEGREE OF COMPULSION THAN VOLUNTARY ONES. AND ENFORCEMENT POLICIES, NO MATTER HOW BENIGN THEY MAY SOUND, ARE POTENTIALLY AN EVEN MORE THREATENING FORM OF REGULATION. NOT ONLY CAN THEY BE APPLIED AS STRICTLY AS A MANDATORY STANDARD, BUT THEY FREQUENTLY CIRCUMVENT THE DUE PROCESS RIGHTS OF NOTICE, COMMENT AND ADJUDICATORY HEARING THAT ARE PART AND PARCEL OF THE MANDATORY STANDARD-SETTING PROCESS. MOREOVER, ENFORCEMENT POLICIES MAY NOT BE APPLIED UNIFORMLY, BEING AS THEY ARE IMPLEMENTED ON A CASE-BY-CASE BASIS, AND THEY DO NOT HAVE QUITE AS STRONG A PRE-EMPTIVE EFFECT. IN SHORT, THEY ARE NOT THE PANACEA THAT SOME WOULD HAVE US BELIEVE.

SO WHERE DOES ALL THAT LEAVE US? TO MY WAY OF THINKING, AND I HOPE TO YOURS, IT LEAVES US WITH VOLUNTARY STANDARDS AND VOLUNTARY PARTICIPATION IN CORRECTIVE ACTION PLANS AS THE PREFERRED WAY OF DEALING WITH HAZARDS THAT MAY BE ASSOCIATED WITH CONSUMER PRODUCTS. JUST AS IT IS HARD TO ARGUE THAT MANDATORY PROCEDURES CAN BE DEVELOPED AS QUICKLY, CHANGED AS EASILY OR IMPLEMENTED AS CHEAPLY AS VOLUNTARY STANDARDS, SO TOO IS IT DIFFICULT TO CONCLUDE THAT VOLUNTARY STANDARDS DO NOT ADVANCE THE CAUSE OF CONSUMER PRODUCT SAFETY. STATISTICS DO NOT LIE AND WHAT THE STATISTICS TELL US IS, FROM 1980 TO 1984, THE HOME ACCIDENT DEATH RATE DECLINED APPROXIMATELY 11% AND THE CONSUMER PRODUCT INJURY RATE DECLINED APPROXIMATELY

4.5%, DESPITE A 13% CUT IN THE BUDGET AND A 39% CUT IN THE STAFF OF THE CPSC OVER THE SAME PERIOD OF TIME. NOW THESE DECLINES CANNOT BE ATTRIBUTED SOLELY TO GREATER RELIANCE ON VOLUNTARY STANDARDS; THERE WERE OTHER FACTORS INVOLVED, NOT THE LEAST OF WHICH IS THE NATURAL TENDENCY OF THE MARKETPLACE, IN TIMES OF RISING INCOMES, TO ENCOURAGE THE DEVELOPMENT OF SAFER PRODUCTS. BUT THEY CERTAINLY CAN, AND DO, UNDERMINE THE ARGUMENT THAT VOLUNTARY STANDARDS ARE TOTALLY INEFFECTIVE. MOREOVER, THEY LEND SUBSTANCE TO A THESIS ADVANCED BY THE RENOUNED PHILOSOPHER JOHN LOCKE SEVERAL CENTURIES AGO. SAID HE: "THE END OF LAW IS NOT TO ABOLISH AND RESTRAIN FREEDOM, BUT TO PRESERVE AND ENLARGE FREEDOM." TO WHICH I CAN ONLY ADD, THAT IS A NOBLE END INDEED.

REMARKS OF TERRENCE SCANLON ON "SAFETY FOR OLDER CONSUMERS" AT HONOLULU, HAWAII

AUGUST 12, 1987

IT IS A REAL PLEASURE TO BE HERE IN HONOLULU THIS MORNING TO DISCUSS THE CONCERNS OF SENIOR CITIZENS AS THEY RELATE TO PRODUCT SAFETY. ALL TOO OFTEN PEOPLE FORGET THAT, AS INDIVIDUALS AGE, NOT ONLY DO THEIR TASTES IN CONSUMER PRODUCTS CHANGE, BUT SO TOO DOES THEIR ABILITY TO USE SUCH PRODUCTS. AN EXCELLENT EXAMPLE IS PRESCRIPTION DRUGS, THE PACKAGING OF WHICH COMES UNDER THE JURISDICTION OF THE CONSUMER PRODUCT SAFETY COMMISSION (CPSC).

BUT BEFORE I GO ANY FURTHER, LET ME EXPRESS MY THANKS TO THE STATE EXECUTIVE OFFICE ON AGING AND ITS DIRECTOR, DR. TAKAMURA, FOR SPONSORING THIS EVENT. I KNOW A LOT OF WORK WENT INTO THE ARRANGEMENTS AND I JUST WANT YOU TO KNOW THE EFFORT IS MOST APPRECIATED.

REFLECTING ON WHAT I WOULD SAY HERE THIS MORNING, I AM REMINDED OF HOW HELEN KELLER RESPONDED WHEN ASKED HOW SHE HOPED TO APPROACH OLD AGE. SAID SHE, ON THE OCCASION OF HER 80TH BIRTHDAY, "ONE SHOULD NEVER COUNT THE YEARS -- ONE SHOULD INSTEAD COUNT THE INTERESTS."

OBVIOUSLY, EACH OF YOU HAS BEEN COUNTING YOUR INTERESTS, OTHERWISE YOU WOULDN'T BE HERE THIS MORNING. AND I COMMEND YOU FOR IT. AS THE CONSUMER PRODUCT SAFETY COMMISSION HAS FOUND OUT, THERE IS SO MUCH NEW, AND SO MUCH THAT CAN BE DONE, IN THE AREA OF SAFETY FOR OLDER CONSUMERS, THAT IT IS DOWNRIGHT AMAZING. ARMED WITH THE APPROPRIATE INFORMATION, THERE ARE A GREAT

NUMBER OF THINGS, MANY OF THEM INEXPENSIVE, THAT SENIOR CITIZENS CAN DO TO MAKE THEIR HOMES OR APARTMENTS SAFER. SOME OF THESE INVOLVE USING NEW PRODUCTS ESPECIALLY DESIGNED FOR SENIORS; OTHERS INVOLVE USING EXISTING PRODUCTS IN DIFFERENT WAYS. MANY ARE EASY TO INSTALL AND MOST CAN BE OBTAINED WITHOUT TOO MUCH DIFFICULTY. BUT BEFORE I GET INTO PARTICULARS, LET ME TELL YOU A LITTLE BIT MORE ABOUT THE CONSUMER PRODUCT SAFETY COMMISSION ITSELF.

PURSUANT TO THE CONSUMER PRODUCT SAFETY ACT AND FOUR OTHER STATUTES, THE CPSC HAS JURISDICTION OVER APPROXIMATELY 15,000 TYPES OF CONSUMER PRODUCTS, RUNNING THE GAMUT FROM ALL TERRAIN VEHICLES TO ZIPPERS. THE COMMISSION'S PRIMARY MANDATE IS TO PROTECT THE AMERICAN PUBLIC AGAINST AN "UNREASONABLE RISK" OF INJURY ASSOCIATED WITH ANY OF THOSE PRODUCTS. TO DO ITS JOB, THE COMMISSION HAS A VARIETY OF REGULATORY TOOLS AT ITS DISPOSAL. THESE INCLUDE BANNING THE SALE OF A PRODUCT, VARIOUS TYPES OF RECALLS, MANDATORY OR VOLUNTARY STANDARD-SETTING, PRODUCT LABELING AND CONSUMER EDUCATION. HOWEVER, THE COMMISSION HAS SOME LATITUDE, DEPENDING ON THE CIRCUMSTANCES INVOLVED, IN THE SELECTION OF THE APPROPRIATE REGULATORY TOOL.

CLEARLY, IF A PRODUCT POSES A SERIOUS RISK OF INJURY OR DEATH AND THE MANUFACTURER IS UNWILLING TO TAKE CORRECTIVE ACTION, THEN ONE OF THE MORE DRASTIC TOOLS WILL BE SELECTED. HOWEVER,IF THERE IS SOME DOUBT ABOUT THE EXTENT OR SEVERITY OF THE SUSPECTED HAZARD OR IF THE MANUFACTURER IS WILLING TO INSTITUTE APPROPRIATE

REMEDIAL MEASURES VOLUNTARILY, OR BOTH, THEN THE COMMISSION MAY OPT FOR A MORE COOPERATIVE, LESS COMBATIVE APPROACH.

ASSESSING THE SEVERITY OF A HAZARD IS NOT NECESSARILY AN EASY TASK, HOWEVER. OFTEN, A DETAILED HAZARD ANALYSIS IS REQUIRED, ALONG WITH ENGINEERING STUDIES, MEDICAL ANALYSES AND OTHER WORK. ONE FACTOR THE COMMISSION USUALLY TAKES INTO ACCOUNT IS THE NATURE OF THE POPULATION AT RISK; INDEED, IF IT IS A POPULATION THAT MAY HAVE PARTICULAR DIFFICULTY RECOGNIZING OR REACTING TO THE RISK -- AS IS THE CASE WITH YOUNG CHILDREN OR SENIOR CITIZENS -- THAT FACT MAY BE GIVEN EXTRA WEIGHT. NO ONE WANTS TO SEE THOSE WHO ARE UNAWARE OF A RISK, OR WHO ARE UNABLE TO DEAL WITH IT, SUFFER AS A CONSEQUENCE.

IN 1987, AMERICA WILL REACH A MILESTONE; A RECORD 12% OF ITS POPULATION WILL BE 65 OR OVER AND THUS IN THE SENIOR CITIZEN CATEGORY. THAT PERCENTAGE REPRESENTS NEARLY 30 MILLION PEOPLE, OVER 600,000 OF WHOM ARE TREATED IN HOSPITAL EMERGENCY ROOMS EACH YEAR FOR INJURIES ASSOCIATED WITH THE USE OF CONSUMER PRODUCTS. THE COST OF THAT TREATMENT ALONE IS ESTIMATED TO BE IN THE NEIGHBORHOOD OF $1.2 BILLION ANNUALLY, AND THE COST OF TREATING ALL MEDICALLY ATTENDED INJURIES SUFFERED BY SENIORS WHILE USING CONSUMER PRODUCTS IS APPROXIMATELY $3 BILLION A YEAR. WORSE YET, THOSE FIGURES DON'T TAKE INTO ACCOUNT THE PAIN, THE SUFFERING AND SOMETIMES EVEN THE DEATH THAT IS INVOLVED. NOT ONLY ARE THE INJURIES SUFFERED BY

SENIORS LIKELY TO BE MORE SEVERE THAN IF SOMEONE YOUNGER WERE INVOLVED, BUT THE ACCIDENTAL DEATH RATE FOR PERSONS OVER 65 IS TRIPLE THAT OF THOSE IN THE UNDER 65 AGE CATEGORY.

LET'S LOOK, FOR A MOMENT, AT THE TYPES OF ACCIDENTS THAT MOST FREQUENTLY INVOLVE OLDER PEOPLE. AT THE TOP OF THE LIST ARE FALLS, ESPECIALLY IN THE BATHROOM OR ON STAIRS. THEN THERE ARE BURNS AND SMOKE INHALATION STEMMING FROM FIRES. ALSO, SCALDS RESULTING FROM HOT TAP WATER ARE HIGH ON THE LIST AND SO TOO ARE INSTANCES OF ELECTRIC SHOCK. YET ALL OF THESE HAZARDS CAN BE RATHER EASILY AVOIDED -- WITH JUST A LITTLE KNOWLEDGE AND FOLLOW-UP.

GRAB BARS ON THE TUB AND NONSKID MATS ON THE BATHROOM FLOOR CAN GO A LONG WAY TOWARDS PREVENTING FALLS. LIKEWISE, INSTALLATION OF A SMOKE DETECTOR WILL INCREASE THE CHANCES OF A SENIOR CITIZEN ESCAPING A FIRE BEFORE BURNS OR SMOKE INHALATION TAKE THEIR TOLL. SIMILARLY, TURNING DOWN THE HOT WATER HEATER THERMOSTAT TO 120° AND INSTALLING GROUND FAULT CIRCUIT INTERRUPTERS IN THE KITCHEN, BATHS, AND THE BASEMENT CAN PREVENT SCALD AND SHOCK INJURIES. AND THESE IDEAS ARE JUST FOR STARTERS. MANY OTHER SUGGESTIONS FOR MAKING ONE'S HOME SAFER ARE OUTLINED IN OUR HOME SAFETY CHECKLIST FOR OLDER CONSUMERS, A COPY OF WHICH I HAVE HERE.

SINCE IT WAS FIRST PUBLISHED IN JANUARY, 1985, THE CPSC HAS DISTRIBUTED OVER A MILLION OF THESE 29-PAGE CHECKLISTS TO SENIOR CITIZENS AROUND THE COUNTRY. AND

MORE ARE BEING DISTRIBUTED EVERY DAY WITH THE HELP OF GROUPS LIKE THE AMERICAN ASSOCIATION OF RETIRED PERSONS (AARP), THE NATIONAL ASSOCIATION OF AREA AGENCIES ON AGING, THE NATIONAL COUNCIL ON AGING AND THE NATIONAL SAFETY COUNCIL. IN ALL, OVER TWO DOZEN ORGANIZATIONS, SOME GOVERNMENTAL AND SOME PRIVATE, HAVE CONTRIBUTED BUT THERE IS STILL A LONG WAY TO GO. IDEALLY, THE COMMISSION WOULD LIKE TO BRING A HOME SAFETY CHECKLIST TO THE ATTENTION OF EVERY OLDER AMERICAN SO THAT EACH OF THEM COULD CHECK OUT THEIR DWELLING AND MAKE THE RECOMMENDED IMPROVEMENTS.

TO THIS END, THE CONSUMER PRODUCT SAFETY COMMISSION HAS MADE "SAFETY FOR OLDER CONSUMERS" ONE OF ITS PRIORITY PROJECTS FOR FISCAL YEAR 1987. FOR INSTANCE, THE COMMISSION HAS BEEN WORKING THROUGH AREA AGENCIES ON AGING TO PRESENT A SERIES OF SEMINARS TO SENIOR CITIZENS IN TEN CITIES ON USE OF THE HOME SAFETY CHECKLIST. SO FAR, 340 PRESENTATIONS HAVE BEEN MADE TO A CUMULATIVE TOTAL OF MORE THAN 12,500 PEOPLE. MOREOVER, THE EFFORT IS CONTINUING IN SIX OF THE TEN CITIES EVEN THOUGH THE FUNDS PROVIDED BY THE CPSC FOR THE PROJECT HAVE BEEN EXPENDED.

IN ADDITION TO THIS EDUCATIONAL EFFORT, THE COMMISSION'S STAFF WILL BE WORKING WITH THE AMERICAN SOCIETY FOR TESTING AND MATERIALS (ASTM) ON A VOLUNTARY STANDARD FOR STEP STOOLS. ALSO, WE ARE WORKING ON A MANUAL FOR MANUFACTURERS THAT WILL ENCOURAGE THEM TO KEEP THE NEEDS OF SENIOR CITIZENS IN MIND WHEN DESIGNING NEW PRODUCTS. EXAMPLES OF WHAT CAN BE DONE

ALONG THOSE LINES INCLUDE LABELING WITH LARGE LETTERS, ALARM SYSTEMS FOR THOSE WHOSE SIGHT AND/OR HEARING IS IMPAIRED, ANTI-SCALD DEVICES, SOFT BATHTUBS AND TEXTURIZED GRAB BARS.

SPEAKING OF WHAT CAN BE DONE, I SHOULD ALSO MENTION THAT THE CENTERS FOR DISEASE CONTROL (CDC) ARE WORKING ON A TWO-PART STUDY OF ACCIDENTS SUFFERED BY OLDER PEOPLE AND HOW THEY MIGHT BE PREVENTED OR MITIGATED. WHEN FINISHED IN SEVERAL YEARS -- PRELIMINARY DATA MAY BE AVAILABLE IN THREE TO SIX MONTHS -- THIS STUDY SHOULD PROVIDE ADDITIONAL INSIGHTS INTO HOW ACCIDENTS INVOLVING SENIOR CITIZENS MIGHT BE PREVENTED, INSIGHTS THAT ULTIMATELY MIGHT BE INCORPORATED INTO A REVISED EDITION OF THE HOME SAFETY CHECKLIST.

JUST AS THIS CDC STUDY UNDERSCORES THE POTENTIAL FOR REDUCING INJURIES ASSOCIATED WITH SENIOR CITIZENS' USE OF CONSUMER PRODUCTS, SO TOO DO A FEW STATISTICS UNDERSCORE THE NEED TO PUSH AHEAD WITH THIS EFFORT. BY THE YEAR 2000, IT IS ESTIMATED THAT ALMOST 13% OF THE NATION'S POPULATION WILL BE 65 OR OVER, COMPARED TO 12% TODAY. AND THAT IS JUST THE TIP OF THE ICEBERG. BY YEAR 2010, THE POSTWAR "BABY BOOM" GENERATION WILL BE TURNING 65 EN MASSE, GENERATING AN UNPRECEDENTED DEMAND FOR GOODS AND SERVICES ORIENTED TOWARDS SENIOR CITIZENS. AS A CONSEQUENCE, THE NATION IS FACED WITH TWO POLICY CHOICES. EITHER WE CAN WAIT FOR THE CRUNCH TO COME AND RISK BEING BEHIND THE EIGHT BALL WHEN IT HITS, OR WE CAN MAKE AN INVESTMENT NOW AND BE ON TOP OF

THINGS WHEN THE RETIREMENT OF THE BABY BOOMERS BECOMES A REALITY. PERSONALLY, I FAVOR THE LATTER APPROACH AND BELIEVE THAT THE CPSC'S SAFETY FOR OLDER CONSUMERS PROGRAM IS PRECISELY THE TYPE OF INVESTMENT WE SHOULD BE MAKING AT THIS TIME. COMPARED TO WHAT WE ARE PAYING FOR RETROSPECTIVE PROGRAMS LIKE MEDICARE AND MEDICAID, THE COST OF THIS PROSPECTIVE EFFORT IS MINUSCULE. AND THE BENEFITS ARE TANGIBLE AS AN EVALUATION OF THE HOME SAFETY CHECKLIST EFFORT HAS SHOWN. IF GIVEN GOOD INFORMATION IN EASY-TO-UNDERSTAND FORM, PEOPLE WILL TAKE STEPS TO MAKE THEIR HOMES SAFER. SO WE WILL CONTINUE TO SPREAD THE WORD AND INVITE EACH AND EVERY ONE OF YOU TO JOIN US IN THE EFFORT. FOR THOSE WHO HAVE BEEN HELPING ALREADY, LET ME SAY THANKS. FOR THOSE WHO WOULD LIKE TO HELP IN THE FUTURE, WELCOME ABOARD. YOUR EFFORTS WILL ALSO BE MOST APPRECIATED.

REMARKS OF TERRENCE SCANLON TO HONOLULU PRESS CLUB AND CONSUMER EDUCATION AND INFORMATION ASSOCIATION OF HAWAII, HONOLULU, HAWAII

AUGUST 13, 1987

IT IS A REAL PLEASURE TO BE HERE THIS AFTERNOON TO MEET WITH MEMBERS OF THE JOURNALISM AND ADVERTISING COMMUNITIES IN HAWAII. INASMUCH AS THE CONSUMER PRODUCT SAFETY COMMISSION IS REQUIRED BY LAW TO INFORM THE PUBLIC ABOUT RISKS THAT MAY BE ASSOCIATED WITH THE USE OF CONSUMER PRODUCTS AND TO EDUCATE CONSUMERS CONCERNING THE SAFER USE OF SUCH PRODUCTS, WE AT THE COMMISSION HAVE MORE THAN A PASSING INTEREST IN WHAT YOU DO AND HOW YOU DO IT. CONVERSELY, WE HOPE THAT YOU WILL HAVE SOME INTEREST IN WHAT WE DO AND WHY WE DO IT.

THAT BEING THE CASE, WHAT I'D LIKE TO DO TODAY IS TALK ABOUT CONSUMER INFORMATION AND EDUCATION EFFORTS AT THE COMMISSION. BUT BEFORE I DO, I SHOULD POINT OUT THAT I AM NEITHER A JOURNALIST NOR A PUBLIC RELATIONS SPECIALIST BY PROFESSION; MINORITY BUSINESS DEVELOPMENT WAS MY FIELD BEFORE COMING TO THE CONSUMER PRODUCT SAFETY COMMISSION. HOWEVER, I HAVE THE GREATEST RESPECT FOR THE MEN AND WOMEN IN BOTH FIELDS; TO BE SUCCESSFUL IN EITHER REQUIRES A COMBINATION OF INTELLECT AND PERSERVERANCE THAT CAN, AT TIMES, BE AGGRAVATING BUT WHICH, NONETHELESS, MUST BE ADMIRED.

NEWSPAPER PEOPLE, IN PARTICULAR, HAVE A LONG-STANDING REPUTATION FOR PERSERVERANCE. ONE REASON FOR THIS IS THAT THEY HAVE A LONGER GROUP HISTORY THAN THEIR COUNTERPARTS IN THE ELECTRONIC MEDIA

OR THE ADVERTISING FIELD. BUT CONTRIBUTING TO THAT REPUTATION ARE INDIVIDUAL INSTANCES SUCH AS THE FEMALE REPORTER WHO WISHED TO GET AN INTERVIEW WITH PRESIDENT JOHN QUINCY ADAMS BACK IN THE 1820'S. REJECTED, SHE CHECKED WITH HER SOURCES, AND DISCOVERED THAT THE PRESIDENT LIKED TO GO SKINNY-DIPPING IN THE MORNINGS IN THE C&O CANAL WHICH, AT THE TIME, RAN JUST SOUTH OF THE WHITE HOUSE. ARMED WITH THAT KNOWLEDGE, THE REPORTER GOT UP EARLY THE NEXT MORNING AND PARKED HERSELF UNDER SOME BUSHES ALONG THE BANK. PRETTY SOON, THE HEAD AND SHOULDERS OF THE PRESIDENT CAME INTO VIEW AS HE SWAM TOWARDS SHORE.

"MR. PRESIDENT," THE REPORTER SANG OUT, "HOW ABOUT MY INTERVIEW?"

"ABSOLUTELY NOT, YOUNG LADY," RESPONDED THE PRESIDENT, "I'VE GOT TO GET DRESSED AND GET TO A MEETING."

"TELL YOU WHAT, MR. PRESIDENT," ANSWERED THE REPORTER, "IF YOU'LL GIVE ME THE INTERVIEW, I'LL GET UP OFF THIS PILE OF CLOTHES HERE."

WE WILL NEVER KNOW WHY PRESIDENT ADAMS DIDN'T WANT TO DO THAT INTERVIEW. PERHAPS HE HAD HEARD OF THE PUBLIC OFFICIAL WHO ALLOWED HIMSELF TO BE INTERVIEWED, AND THEN NOT LIKING THE PUBLISHED RESULT, STORMED INTO THE NEWSPAPER EDITOR'S OFFICE TO COMPLAIN. "YOU ARE TELLING LIES ABOUT ME IN YOUR PAPER," HE PROTESTED, "AND WHAT'S WORSE, YOU KNOW THEY ARE LIES."

"YOU HAVE NO CAUSE FOR COMPLAINT," RESPONDED THE EDITOR. "WHAT IN THE WORLD WOULD YOU DO IF WE TOLD THE TRUTH ABOUT YOU?"

LEST I START DWELLING ON WHAT YOU MIGHT WRITE ABOUT ME TOMORROW, PERHAPS I'D BETTER MOVE ON. WITH ALL DUE RESPECT FOR THOSE IN THE FIELD, I'VE HEARD ADVERTISING DESCRIBED AS THE SCIENCE OF ARRESTING HUMAN INTELLIGENCE LONG ENOUGH TO GET MONEY FROM IT. MOREOVER, THERE ARE THOSE WHO CRITICIZE THE COMMISSION'S INVOLVEMENT IN PRODUCT SAFETY ADVERTISING CAMPAIGNS AS BEING MISGUIDED AND INEFFECTIVE. HOWEVER, I DO NOT SHARE THOSE VIEWS. TO ME, PRODUCT SAFETY ADVERTISING IS A COST-EFFICIENT INVESTMENT IN THE FUTURE, WHETHER IT BE SPONSORED BY INDUSTRY, BY LOCAL CONSUMER AGENCIES OR BY THE U.S. CONSUMER PRODUCT SAFETY COMMISSION.

HAVING GONE THAT FAR, LET ME BRIEFLY SUMMARIZE THE ARGUMENTS OF THOSE WHO HAVE RESERVATIONS ABOUT PRODUCT SAFETY ORIENTED ADVERTISING CAMPAIGNS. ASIDE FROM THE POSSIBILITY OF FALSE OR MISLEADING ADVERTISING, WHICH IS A GENERIC PROBLEM THAT COMES UNDER THE JURISDICTION OF THE FEDERAL TRADE COMMISSION, THEY ARE FOUR IN NUMBER.

FIRST, WE HAVE THE CYNICS WHO BELIEVE THAT AMERICAN INDUSTRY WILL ALMOST INVARIABLY SUBORDINATE PRODUCT SAFETY TO PROFIT CONSIDERATIONS; THEY ARGUE THAT SAFER PRODUCTS WILL BE PRODUCED ONLY WHEN THE GOVERNMENT FORCES INDUSTRY TO MAKE THEM THAT WAY. SECOND, THERE ARE THE SKEPTICS WHO QUESTION WHETHER PEOPLE WILL USE PRODUCTS SAFELY EVEN WHEN TOLD HOW TO DO SO; OFTEN THEIR SOLUTION IS FOR THE GOVERNMENT TO IMPOSE PRODUCT REDESIGN RATHER THAN STRESS SAFER

BEHAVIOR. THIRD, THERE ARE THOSE WHO ARE GENUINELY AND UNDERSTANDABLY CONCERNED ABOUT YOUNG CHILDREN, SENIOR CITIZENS, AND OTHERS WHO MAY NOT BE ABLE TO RECOGNIZE OR REACT TO A PRODUCT HAZARD; THEY QUESTION WHETHER WARNINGS ARE SUFFICIENT OR EVEN RELEVANT FOR SUCH VULNERABLE POPULATIONS. AND FINALLY, THERE IS A GENERAL CONCERN ABOUT HOW WELL PRODUCT SAFETY INFORMATION AND EDUCATION CAMPAIGNS REALLY WORK; HOW MANY PEOPLE DO THEY REACH, HOW MANY PEOPLE PAY ANY ATTENTION AND, MOST IMPORTANT OF ALL, HOW MANY PEOPLE ACT ON THE INFORMATION PROVIDED THEM.

SIGNIFICANT AS SOME OR ALL OF THESE ARGUMENTS MAY BE, DOES THEIR EXISTENCE SUGGEST THAT CONSUMER PRODUCT SAFETY ADVERTISING IS INEFFECTIVE AND CANNOT, THEREFORE, BE JUSTIFIED TO ANY GREAT EXTENT? TO MY WAY OF THINKING, THE ANSWER IS AN EMPHATIC NO.

TAKE FOR EXAMPLE, THE ARGUMENTS THAT INDUSTRY WON'T MAKE SAFER PRODUCTS ANY MORE THAN INDIVIDUALS WILL MAKE SAFER USE OF PRODUCTS UNLESS GOVERNMENT TAKES THE INITIATIVE. ADMITTEDLY, THERE ARE FIRMS AS WELL AS INDIVIDUALS WHO WILL NOT TAKE ON AS MUCH RESPONSIBILITY IN THESE AREAS AS THEY SHOULD. BUT, FROM EVERY INDICATION, THEY ARE IN THE MINORITY. NOT ONLY HAS AMERICAN INDUSTRY GENERALLY LEARNED THAT PRODUCT SAFETY IS GOOD BUSINESS, ESPECIALLY IN THIS ERA OF PRODUCT LIABILITY SUITS, BUT MANY FIRMS ARE ENGAGING IN PRODUCT SAFETY ADVERTISING OF THEIR OWN. ALSO, IF GIVEN THE NECESSARY INFORMATION, THE AMERICAN PUBLIC HAS DEMONSTRATED ITS WILLINGNESS TO TAKE PREVENTIVE OR CORRECTIVE STEPS WHEN FACED WITH PERCEIVED RISK.

WITH RESPECT TO VULNERABLE POPULATIONS, THE INABILITY TO PERCEIVE RISK OR REACT TO IT IS A PROBLEM. INDEED, THE DISTINCTION BETWEEN KNOWN AND UNKNOWN RISK IS ONE THAT CAN JUSTIFY GREATER GOVERNMENT INVOLVEMENT ON OCCASION. HOWEVER, CONSUMER EDUCATION HAS NO LESS POTENTIAL FOR PROTECTING VULNERABLE POPULATIONS THAN DOES PRODUCT REDESIGN. FOR EXAMPLE, IN 1984, THE CONSUMER PRODUCT SAFETY COMMISSION EVALUATED A PILOT PROJECT IT HAD UNDERTAKEN ON THE EFFECTIVENESS OF "HOME SAFETY CHECKLISTS" FOR SENIOR CITIZENS AND FOUND THAT THOSE RECEIVING THE CHECKLISTS NOT ONLY LEARNED FROM THEM BUT ACTED UPON WHAT THEY LEARNED. THUS ENCOURAGED, THE COMMISSION INITIATED NATIONWIDE DISTRIBUTION OF THESE CHECKLISTS, ENLISTING THE ASSISTANCE OF A NUMBER OF OTHER GOVERNMENT AGENCIES, PRIVATE FIRMS AND NON-PROFIT ORGANIZATIONS. SO SUCCESSFUL WAS THE EFFORT THAT OVER A MILLION CHECKLISTS WERE DISTRIBUTED THE FIRST YEAR, ENOUGH TO PROMPT THE COMMISSION TO MAKE SAFETY FOR OLDER CONSUMERS A PRIORITY PROJECT ONCE AGAIN IN FISCAL 1987.

ANOTHER EXAMPLE WORTH NOTING IS POISON PREVENTION. BACK IN THE EARLY 1960'S, NEARLY 500 CHILDREN UNDER 5 DIED EACH YEAR FROM ACCIDENTAL INGESTIONS OF MEDICINES AND HOUSEHOLD CHEMICALS. HOWEVER, OVER THE PAST 26 YEARS, AN ON-GOING POISON PREVENTION EDUCATION EFFORT, COUPLED WITH ENFORCEMENT OF CHILD-RESISTANT PACKAGING REGULATIONS, HAS HELPED BRING ABOUT AN 85% REDUCTION IN THIS TRAGIC TOLL. PRECISELY HOW MUCH OF THIS PROGRESS CAN BE ATTRIBUTED TO PRODUCT SAFETY ADVERTISING IS, OF COURSE, OPEN TO DEBATE. SUFFICE IT TO SAY, THE SUCCESS OF CONSUMER EDUCATION AND CHILD RESISTANT PACKAGING IN TANDEM AUGURS WELL FOR THE COMMISSION'S CURRENT ATTEMPT TO REDUCE THE NUMBER OF DEATHS OF CHILDREN UNDER 5 (ESTIMATED TO BE 125 PER YEAR) CAUSED BY CHILDREN PLAYING WITH CIGARETTE LIGHTERS.

FIGURES SUCH AS THESE BRING US TO THE QUESTION OF EVALUATING THE EFFECTIVENESS OF PRODUCT SAFETY RELATED ADVERTISING CAMPAIGNS. WHILE IT MAY BE TRUE THAT IT IS HARDER FOR PEOPLE TO APPRECIATE SOMETHING THAT DID NOT HAPPEN (LIKE AN ACCIDENT) AS OPPOSED TO SOMETHING THAT DID, THERE ARE VARIOUS WAYS OF MEASURING THE EFFECTIVENESS OF PRODUCT SAFETY RELATED ADVERTISING.

FOR INSTANCE, ONE MEASURE OF EFFECTIVENESS, ALBEIT THE LEAST DEFINITIVE, IS THE SCOPE OF THE INFORMATION AND EDUCATION EFFORT. FOR INSTANCE, OUR HOLIDAY TOY SAFETY PRESS CONFERENCE LAST NOVEMBER WAS DIRECTED AT APPROXIMATELY 1,200 TV STATIONS, 9,800 RADIO STATIONS, 1,700 DAILY NEWSPAPERS AND 7,500 WEEKLIES; MORE TO THE POINT, IT IS ESTIMATED TO HAVE ACHIEVED A 40% PENETRATION OF THOSE MEDIA OUTLETS. SIMILARLY, THE COMMISSION RECENTLY SENT OUT A TWO-MINUTE VIDEO NEWS RELEASE ON SWIMMING POOL SAFETY. THE NEWS RELEASE WAS MADE AVAILABLE BY SATELLITE TO 960 TV STATIONS, AT A COST TO THE GOVERNMENT OF A MERE $6,000. LIKEWISE, A PRE-4TH OF JULY PRESS CONFERENCE ON FIREWORKS SAFETY, COMPLETE WITH GRAPHIC DEMONSTRATIONS OF THE EXPLOSIVE POWER OF ILLEGAL FIREWORKS, RECEIVED WIDESPREAD TELEVISION COVERAGE. AND THOSE ARE BUT A FEW EXAMPLES.

IN ALL, THE COMMISSION DISTRIBUTED APPROXIMATELY 2.7 MILLION PIECES OF PRODUCT SAFETY LITERATURE LAST YEAR AND EXPECTS TO DISTRIBUTE A SIMILAR QUANTITY THIS YEAR.

A SOMEWHAT MORE PRECISE MEANS OF EVALUATION IS TO GAUGE THE REACTION OF THOSE WHO ARE EXPOSED TO SUCH EFFORTS. FOR EXAMPLE, IN THE CASE OF THE HOME SAFETY CHECKLIST, OUR PILOT PROJECT ANALYSIS DETERMINED THAT SENIOR CITIZENS WHO WERE GIVEN THE CHECKLIST DID INDEED MAKE SOME OF THE SAFETY IMPROVEMENTS IT SUGGESTED. ALSO, IN THE WAKE OF THE AFOREMENTIONED TOY SAFETY PRESS CONFERENCE, CALLS TO THE COMMISSION'S TOLL FREE HOTLINE INCREASED 20% AFTER THE WELL-PUBLICIZED EVENT, COMPLAINTS FILED WITH THE CPSC ROSE 59%, AND LITERATURE REQUESTS INCREASED 75% -- ALL SURE SIGNS THAT THE PUBLICITY EFFORT HAD A DESIRABLE EFFECT. IF PEOPLE ARE ASKING QUESTIONS, SEEKING MORE INFORMATION, AND POINTING OUT POTENTIAL PRODUCT SAFETY PROBLEMS, THEY ARE ALSO LIKELY TO BE TAKING WHATEVER ACTION MAY BE NECESSARY TO FORESTALL ACCIDENTS.

BUT PERHAPS THE BEST MEANS OF ALL FOR JUDGING THE RELATIVE EFFECTIVENESS OF PRODUCT SAFETY ADVERTISING CAMPAIGNS IS TO LOOK AT THE BOTTOM LINE -- THE DEATH AND INJURY FIGURES. SPECIFICALLY, THE DRAMATIC REDUCTION IN CHILD POISONINGS, WHICH CAN BE PARTIALLY ATTRIBUTED TO CONTINUING INFORMATION AND EDUCATION EFFORTS, IS TANGIBLE EVIDENCE THAT PRODUCT SAFETY ADVERTISING WORKS. MORE GENERALLY, THE FIGURES SHOWING

THAT, FROM 1980 TO 1984, THE HOME ACCIDENT DEATH RATE DECLINED APPROXIMATELY 11% AND THE CONSUMER PRODUCT INJURY RATE DECLINED APPROXIMATELY 4.5%, LEND SUPPORT TO THAT CONCLUSION. OF COURSE, THERE ARE OCCASIONS WHEN CONSUMER EDUCATION ALONE IS INADEQUATE TO DEAL WITH THE RISK IN QUESTION, IN WHICH CASE IT MAY BE NECESSARY TO RESORT TO RULEMAKING OR A COMPULSORY ENFORCEMENT ACTION. BUT CLEARLY THERE IS A ROLE FOR PRODUCT SAFETY ADVERTISING TO PLAY. NOT ONLY IS IT ONE OF THE LEAST BURDENSOME MEANS OF PROMOTING SAFER USE OF PRODUCTS BUT, AS I SAID BEFORE, IT IS ONE OF THE MORE COST EFFECTIVE.

I COULD GO ON, BUT RATHER THAN BEAT THIS SUBJECT TO DEATH, LET ME CLOSE WITH ONE LAST THOUGHT. NOT ALL ADVERTISING IS NECESSARILY EFFECTIVE, BUT IF GOOD ADVERTISING "MAKES YOU THINK THAT YOU'VE LONGED ALL YOUR LIFE FOR SOMETHING YOU'VE NEVER HEARD OF BEFORE," -- TO QUOTE AN OLD ADAGE -- THEN THERE IS MUCH TO BE SAID FOR USING IT TO PROMOTE PRODUCT SAFETY. AFTER ALL, THERE IS NOTHING THE CONSUMER PRODUCT SAFETY COMMISSION WOULD LIKE BETTER THAN FOR UNWARY CONSUMERS TO BECOME ARDENT PRODUCT SAFETY ADVOCATES. AS WITH MEDICINE, AN OUNCE OF PREVENTION IS WORTH A POUND OF CURE. OR, AS OUR MOTTO SAYS, PRODUCT SAFETY IS NO ACCIDENT. AND YOU CAN QUOTE ME ON THAT.

REMARKS OF TERRENCE SCANLON ON "SAFETY FOR OLDER CONSUMERS" AT HILO SENIOR CITIZENS CENTER, HILO, HAWAII

AUGUST 14, 1987

IT IS A REAL PLEASURE TO BE HERE IN HILO THIS MORNING TO DISCUSS THE CONCERNS OF SENIOR CITIZENS AS THEY RELATE TO PRODUCT SAFETY. ALL TOO OFTEN PEOPLE FORGET THAT, AS INDIVIDUALS AGE, NOT ONLY DO THEIR TASTES IN CONSUMER PRODUCTS CHANGE, BUT SO TOO DOES THEIR ABILITY TO USE SUCH PRODUCTS. AN EXCELLENT EXAMPLE IS PRESCRIPTION DRUGS, THE PACKAGING OF WHICH COMES UNDER THE JURISDICTION OF THE CONSUMER PRODUCT SAFETY COMMISSION (CPSC).

BUT BEFORE I GO ANY FURTHER, LET ME EXPRESS MY THANKS TO THE ELDERLY ACTIVITIES DIVISION OF THE COUNTY OF HAWAII'S DEPARTMENT OF PUBLIC PARKS AND RECREATION FOR SPONSORING THIS EVENT. I KNOW A LOT OF WORK WENT INTO THIS AND I JUST WANT YOU TO KNOW THE EFFORT IS MOST APPRECIATED.

REFLECTING ON WHAT I WOULD SAY HERE THIS MORNING, I AM REMINDED OF HOW HELEN KELLER RESPONDED WHEN ASKED HOW SHE HOPED TO APPROACH OLD AGE. SAID SHE, ON THE OCCASION OF HER 80TH BIRTHDAY, "ONE SHOULD NEVER COUNT THE YEARS -- ONE SHOULD INSTEAD COUNT THE INTERESTS."

OBVIOUSLY, EACH OF YOU HAS BEEN COUNTING YOUR INTERESTS, OTHERWISE YOU WOULDN'T BE HERE THIS MORNING. AND I COMMEND YOU FOR IT. AS THE CONSUMER PRODUCT SAFETY COMMISSION HAS FOUND OUT, THERE IS SO MUCH NEW, AND SO MUCH THAT CAN BE DONE, IN THE AREA OF SAFETY FOR OLDER CONSUMERS, THAT IT IS DOWNRIGHT AMAZING. ARMED WITH THE APPROPRIATE INFORMATION, THERE ARE A GREAT

NUMBER OF THINGS, MANY OF THEM INEXPENSIVE, THAT SENIOR CITIZENS CAN DO TO MAKE THEIR HOMES OR APARTMENTS SAFER. SOME OF THESE INVOLVE USING NEW PRODUCTS ESPECIALLY DESIGNED FOR SENIORS; OTHERS INVOLVE USING EXISTING PRODUCTS IN DIFFERENT WAYS. MANY ARE EASY TO INSTALL AND MOST CAN BE OBTAINED WITHOUT TOO MUCH DIFFICULTY. BUT BEFORE I GET INTO PARTICULARS, LET ME STRESS ONCE MORE WHY, COLLECTIVELY, THEY ARE SO IMPORTANT.

IN 1987, AMERICA WILL REACH A MILESTONE; A RECORD 12% OF ITS POPULATION WILL BE 65 OR OVER. THAT ADDS UP TO NEARLY 30 MILLION PEOPLE, OVER 600,000 OF WHOM ARE TREATED IN HOSPITAL EMERGENCY ROOMS EACH YEAR FOR INJURIES ASSOCIATED WITH THE USE OF CONSUMER PRODUCTS. THE COST OF THAT TREATMENT ALONE IS ESTIMATED TO BE IN THE NEIGHBORHOOD OF $1.2 BILLION ANNUALLY, AND THE COST OF TREATING ALL MEDICALLY ATTENDED INJURIES SUFFERED BY SENIORS WHILE USING CONSUMER PRODUCTS IS APPROXIMATELY $3 BILLION A YEAR. WORSE YET, THOSE FIGURES DON'T TAKE INTO ACCOUNT THE PAIN, THE SUFFERING AND SOMETIMES EVEN THE DEATH THAT IS INVOLVED. NOT ONLY ARE THE INJURIES SUFFERED BY SENIORS LIKELY TO BE MORE SEVERE THAN IF SOMEONE YOUNGER WERE INVOLVED, BUT THE ACCIDENTAL DEATH RATE FOR PERSONS OVER 65 IS TRIPLE THAT OF THOSE IN THE UNDER 65 AGE CATEGORY.

LET'S LOOK, FOR A MOMENT, AT THE TYPES OF ACCIDENTS THAT MOST FREQUENTLY INVOLVE OLDER PEOPLE. AT THE TOP OF THE LIST ARE FALLS, ESPECIALLY IN THE BATHROOM OR ON STAIRS. THEN THERE ARE BURNS AND SMOKE INHALATION STEMMING FROM FIRES. ALSO, SCALDS RESULTING

FROM HOT TAP WATER ARE HIGH ON THE LIST AND SO TOO ARE INSTANCES OF ELECTRIC SHOCK. YET ALL OF THESE HAZARDS CAN BE RATHER EASILY AVOIDED -- WITH JUST A LITTLE KNOWLEDGE AND FOLLOW-UP.

GRAB BARS ON THE TUB AND NONSKID MATS ON THE BATHROOM FLOOR CAN GO A LONG WAY TOWARDS PREVENTING FALLS. LIKEWISE, INSTALLATION OF A SMOKE DETECTOR WILL INCREASE THE CHANCES OF A SENIOR CITIZEN ESCAPING A FIRE BEFORE BURNS OR SMOKE INHALATION TAKE THEIR TOLL. SIMILARLY, TURNING DOWN THE HOT WATER HEATER THERMOSTAT TO 120° AND INSTALLING GROUND FAULT CIRCUIT INTERRUPTERS IN THE KITCHEN, BATHS, AND THE BASEMENT CAN PREVENT SCALD AND SHOCK INJURIES. AND THESE IDEAS ARE JUST FOR STARTERS. MANY OTHER SUGGESTIONS FOR MAKING ONE'S HOME SAFER ARE OUTLINED IN THE HOME SAFETY CHECKLIST FOR OLDER CONSUMERS, PUBLISHED IN ENGLISH AND SPANISH BY THE CONSUMER PRODUCT SAFETY COMMISSION.

SINCE IT WAS FIRST PUBLISHED IN JANUARY, 1985, THE CPSC HAS DISTRIBUTED OVER A MILLION OF THESE 29-PAGE CHECKLISTS TO SENIOR CITIZENS AROUND THE COUNTRY. AND MORE ARE BEING DISTRIBUTED EVERY DAY WITH THE HELP OF GROUPS LIKE THE AMERICAN ASSOCIATION OF RETIRED PERSONS (AARP), THE NATIONAL ASSOCIATION OF AREA AGENCIES ON AGING, THE NATIONAL COUNCIL ON AGING AND THE NATIONAL SAFETY COUNCIL. IN ALL, OVER TWO DOZEN ORGANIZATIONS, SOME GOVERNMENTAL AND SOME PRIVATE, HAVE CONTRIBUTED BUT THERE IS STILL A LONG WAY TO GO. IDEALLY, THE COMMISSION WOULD LIKE TO BRING A HOME SAFETY CHECKLIST TO THE ATTENTION OF EVERY OLDER AMERICAN SO THAT EACH OF THEM COULD CHECK OUT THEIR DWELLING AND MAKE THE RECOMMENDED IMPROVEMENTS.

TO THIS END, THE CONSUMER PRODUCT SAFETY COMMISSION HAS MADE "SAFETY FOR OLDER CONSUMERS" ONE OF ITS PRIORITY PROJECTS FOR FISCAL YEAR 1987. FOR INSTANCE, THE COMMISSION HAS BEEN WORKING THROUGH AREA AGENCIES ON AGING TO PRESENT A SERIES OF SEMINARS TO SENIOR CITIZENS IN TEN CITIES ON USE OF THE HOME SAFETY CHECKLIST. SO FAR, 340 PRESENTATIONS HAVE BEEN MADE TO A CUMULATIVE TOTAL OF MORE THAN 12,500 PEOPLE. MOREOVER, THE EFFORT IS CONTINUING IN SIX OF THE TEN CITIES EVEN THOUGH THE FUNDS PROVIDED BY THE CPSC FOR THE PROJECT HAVE BEEN EXPENDED.

IN ADDITION TO THIS EDUCATIONAL EFFORT, THE COMMISSION'S STAFF WILL BE WORKING WITH THE AMERICAN SOCIETY FOR TESTING AND MATERIALS (ASTM) ON A VOLUNTARY STANDARD FOR STEP STOOLS. ALSO, WE ARE WORKING ON A MANUAL FOR MANUFACTURERS THAT WILL ENCOURAGE THEM TO KEEP THE NEEDS OF SENIOR CITIZENS IN MIND WHEN DESIGNING NEW PRODUCTS. EXAMPLES OF WHAT CAN BE DONE ALONG THOSE LINES INCLUDE LABELING WITH LARGE LETTERS, ALARM SYSTEMS FOR THOSE WHOSE SIGHT AND/OR HEARING IS IMPAIRED, ANTI-SCALD DEVICES, SOFT BATHTUBS AND TEXTURIZED GRAB BARS.

SPEAKING OF WHAT CAN BE DONE, I SHOULD ALSO MENTION THAT THE CENTERS FOR DISEASE CONTROL (CDC) ARE WORKING ON A TWO-PART STUDY OF ACCIDENTS SUFFERED BY OLDER PEOPLE AND HOW THEY MIGHT BE PREVENTED OR MITIGATED. WHEN FINISHED IN SEVERAL YEARS -- PRELIMINARY DATA MAY BE AVAILABLE IN THREE TO SIX MONTHS -- THIS STUDY SHOULD PROVIDE ADDITIONAL INSIGHTS INTO HOW ACCIDENTS INVOLVING SENIOR CITIZENS MIGHT BE

PREVENTED, INSIGHTS THAT ULTIMATELY MIGHT BE INCORPORATED INTO A REVISED EDITION OF THE HOME SAFETY CHECKLIST.

JUST AS THIS CDC STUDY UNDERSCORES THE POTENTIAL FOR REDUCING INJURIES ASSOCIATED WITH SENIOR CITIZENS' USE OF CONSUMER PRODUCTS, SO TOO DO A FEW STATISTICS UNDERSCORE THE NEED TO PUSH AHEAD WITH THIS EFFORT. BY THE YEAR 2000, IT IS ESTIMATED THAT ALMOST 13% OF THE NATION'S POPULATION WILL BE 65 OR OVER, COMPARED TO 12% TODAY. AND THAT IS JUST THE TIP OF THE ICEBERG. BY YEAR 2010, THE POSTWAR "BABY BOOM" GENERATION WILL BE TURNING 65 EN MASSE, GENERATING AN UNPRECENDENTED DEMAND FOR GOODS AND SERVICES ORIENTED TOWARDS SENIOR CITIZENS. AS A CONSEQUENCE, THE NATION IS FACED WITH TWO POLICY CHOICES. EITHER WE CAN WAIT FOR THE CRUNCH TO COME AND RISK BEING BEHIND THE EIGHT BALL WHEN IT HITS, OR WE CAN MAKE AN INVESTMENT NOW AND BE ON TOP OF THINGS WHEN THE RETIREMENT OF THE BABY BOOMERS BECOMES A REALITY. PERSONALLY, I FAVOR THE LATTER APPROACH AND BELIEVE THAT THE CPSC'S SAFETY FOR OLDER CONSUMERS PROGRAM IS PRECISELY THE TYPE OF INVESTMENT WE SHOULD BE MAKING AT THIS TIME. COMPARED TO WHAT WE ARE PAYING FOR RETROSPECTIVE PROGRAMS LIKE MEDICARE AND MEDICAID, THE COST OF THIS PROSPECTIVE EFFORT IS MINUSCULE. AND THE BENEFITS ARE TANGIBLE AS AN EVALUATION OF THE HOME SAFETY CHECKLIST EFFORT HAS SHOWN. IF GIVEN GOOD INFORMATION IN EASY-TO-UNDERSTAND FORM, PEOPLE WILL TAKE STEPS TO MAKE THEIR HOMES SAFER. SO WE WILL

CONTINUE TO SPREAD THE WORD AND INVITE EACH AND EVERY ONE OF YOU TO JOIN IN THE EFFORT. FOR THOSE WHO HAVE BEEN HELPING ALREADY, LET ME SAY THANKS. FOR THOSE WHO WOULD LIKE TO HELP IN THE FUTURE, WELCOME ABOARD. YOUR EFFORTS WILL ALSO BE MOST APPRECIATED.

TRAVEL FOR FISCAL YEARS 1988 AND 1989

Senator PROXMIRE. Will you please provide for the record the major trips planned for fiscal years 1988 and 1989, the nature of the trips, who will be going, and associated costs?

Mr. SCANLON. Are you talking about for the Commissioners?

Senator PROXMIRE. That is right.

Mr. SCANLON. Be delighted to.

[The information follows:]

MEMORANDUM

To: Chairman Scanlon — Date: 8/6/87
Thru: Peter Brathwaite, Special Assistant
Thru: Ross Koeser, Acting AEDFO RK

From: Lee D. Baxter, FOWR

Subject: SFO Intinerary

Lee Baxter (Res) 415 825. 4095

12:00 PM Pickup Chairman at Golden Gateway Holiday Inn
1500 Van Ness Avenue
San Francisco, Ca.
Telephone (415) 441-4000

1:00 PM Interview with Elaine Hersher, San Francisco Chronicle
This will be at the San Francisco Regional Office.

Elaine has expressed an interest in doing a broader CPSC story than just Child Drowning Prevention. (The Chronicle has run several wire service type stories on child drownings.) She expressed interest in what is happening on pool covers. (Doug Noble or Ron Medford could brief the Chairman on latest developments on the ASTM Voluntary Standards proceedings.) She also expressed interest in ATVs.

2:00 PM Meeting with Chris Bjorklund, Consumer Reporter, KGO-AM, KGO-TV, S.F. Examiner Consumer Columnist.

The meeting with Chris in not for any specific story purposes. (Chris' style is to do her own reporting as a "personality"). She has been a good friend to CPSC. This is more for her background on broad issues. Some areas she is likely to explore would be termed "political", (single administrator, future of CPSC, etc.).
Chris is on the Board of Consumer's Union and knows David Pittle quite well. She has always been a fair and balanced professional journalist.

3:00 PM Meet with U.S. Customs. Paul Andrews, District Director is scheduled for Annual Leave. If he is not available, we will meet with other key staff involved in Operation Toyland.

3:30 PM Meet with CPSC staff based in San Francisco

4:30 PM Depart Regional Office for Hotel
6 P.M. COCKTAIL PARTY GIVEN BY PILLSBURY, MADISON & SUTRO, PEACOCK COURT, MARK HOPKINS INTERCONTINENTAL HOTEL
Tuesday, 8/11/87

8:00
~~9:00~~ AM Pickup at Golden Gateway Holiday Inn and take to Hilton, site of the ABA meeting.

12:00 PM Pickup from Hilton and take to the Airport.

MEMORANDUM

DATE: August 3, 1987

REPLY TO ATTN OF: Donald K. F. Ching, HNL Resident Post

SUBJECT: Hawaii Itinerary for Chairman Scanlon

TO: John P. Mackey, Office of the Chairman

Per your telephoned request, the following are sketches of the meetings arranged for Chairman Scanlon:

Wednesday, August 12, 1987

9:00 A.M. Meeting with Dr. Joshua Agsalud, Administrative Director of the Office of the Governor. Dr. Agsalud will be representing the Governor as both Governor Waihee and Lt. Governor Cayetano will not be available.

Dr. Jeanette Takamura, Director of the State Executive Office on Aging and Mr. Philip Doi, Director of the State Office of Consumer Protection (State Designee) will also be at the meeting.

Meeting to express CPSC's appreciation for the strong support in the past and ask that this close working relationships with local government continue. (Agsalud, Takamura and Doi are new to CPSC, having come in with the new Governor).

9:30 A. M. After the meeting with Dr. Agsalud, the group, including Agsalud) will walk to Room 416 in the State Capital to meet with Senior Citizen Leaders. This meeting was arranged by Dr. Takamura, Director of the State Executive Office on Aging and is scheduled for one hour.

The State Executive Office on Aging is mandated by Hawaii Law to be the State Leader in matters of Policy, Planning, and Programs for Senior Citizens. Administratively, it comes under the Office of the Governor. The Director, Dr. Takamura,was recently connected with the University of Hawaii School of Social Work in the field of Gerontology.

The Chairman's talk is to cover CPSC in general, then focus on the Senior Citizens as a special group. Safety For Older Consumers Check List to be introduced. This Brochure is to be distributed statewide with the advice and help of the State Executive Office on Aging and the State Office of Consumer Protection.(HNL Resident Investigator will be available to help Instructors go through the Brochure) Also time to be alloted for questions and suggestions.

10:45 A.M. After the meeting with the Senior Citizen Leaders, we will accompany Mr. Philip Doi, State Designee, to his office for a short meeting. His Office (Office of Consumer Protection) has always been very helpful to CPSC. Meeting to review State Designee Program and ask for continued support. Also the possibility of a 1988 State Designee Conference.

Wednesday, August 12, 1987

12:30 P.M. Meeting with Resident Pediatric Interns at the Kapiolani Women's and Children's Medical Center. This is a regularly scheduled Teaching Conference for Resident Interns at various hospitals.

Talk to center around the function of CPSC and focus on the many dangers, many hidden, which confront children. Also CPSC's emphasi on Children. Pediatricians can help, as they already doe by encouraging parents to report product related injuries to the CPSC, and to help in Product Safety Education (People listen to their Doctors)

The Hawaii Chapter of the American Academy of Pediatricians has been very supportive of CPSC Programs. It sponsors an annual Health Fair in which Accident and Poison Prevention are given prominent exposure. This year, CPSC has been invited to have its own booth at the Fair. Individual Pediatricians use CPSC material in their offices.

7:30 P.M.: Dinner at the Willows Restaurant with Mrs. Jane Kagihar and her husband Dr. Edward Kagihara who is a Pediatrician. Also Dr. Yi-Chuan Ching and his wife Helen. Dr. Ching is also a Pediatrican and is with the Kaiser-Permanente Medical Care Program.

Mrs. Kagihara is the former Director of the Hawaii Poison Center. (She resigned just last week). She has been a very strong force in Poison Prevention in Hawaii--very creative and enthusiastic taki the Program into the schools and community, creating Television Spots, etc. etc.

The two Doctors have been very instrumental in getting the Hawaii Chapter of the American Academy of Pediatricians involved with CPSC (HNL Resident Investigator is on their Accident Prevention Committe

The Dinner is a way to let these wonderful people meet the Chairman a means of showing them our appreciation.

Thursday, August 13, 1987 8:30 Sen Inouye's A.A.

9:00 A.M.: Courtesy call on Congressman Daniel Akaka. (Congressman Akaka is the only one of Hawaii's Congressional Delegation who will be available) He is a Democrat and is on the House Appropriations Committee. He is well cognizant of CPSC. Several years ago, while wheeling his grandson in a folding stroller in Washington, D. C., the stroller collapsed while going over a curb. The grandson hit his bottom on the curb. The incident was reported to CPSC as a complaint.

~~10:00 A.M.: Available for Media Interviews. Two Daily Newspapers, Television Stations, Radio. Interest in area of Cigarette Lighters ATV's--upcoming issues.--Where we (CPSC) stand, Where are we headed Interviews to be at the Honolulu Press Club, 12 S. King St., Rm 202 Honolulu, Hawaii 96813~~

11:00 Channel 2 Chris Parsons Cigarette light consumers' reps [illegible]

Thursday, August 13, 1987

12:00 Noon. Luncheon Talk with members of the Honolulu Press Club. President of the Club is Mrs. Diane Logsdon. Mrs. Logsdon publishes the "DOWNTOWN PLANET" a Weekly devoted to downtown Honolulu doings

Talk to be informal, centering on CPSC functions, present and futur issues, regulatory options.

Also present at the meeting will be members of the Consumer Educati and Information Association of Hawaii. This Ass'n is made up of consumer education minded individuals from the Gas Co., the Electri ahd Telephone Co., the Water Co., Better Business Bureau, Office of Consumer Protection, etc--Anyone who is interested in reaching the

Consumer. Every year it sponsors a CONSUMER FAIR at one of the majo
Shopping Centers and a Consumer Poster Contest in the schools. Ther
are corporate and individual memberships.

President of CEIA is Paul K. Takamiya, Education and Training Office
for Oahu Civil Defense, City and County of Honolulu. Donald K. F. Ching, CPSC Resident Post Officer, is this years Treasurer.

Friday, August 14, 1987

9:00 A.M. Meeting at the Hilo Senior Citizens Center, Hilo, Hawaii. This will be a meeting with a mixture of people interested in the welfare of Senior Citizens. The meeting was arranged by the University of Hawaii Cooperative Extension Service and the Elderly Activities Division of the Department of Parks and Recreation, County of Hawaii. George Yoshida, Director of the Division will be the host.

Meeting will have people interested in Senior Citizen Activities (Bowling, Painting, etc.) Nutritionists, Fire Department People, and active and interested Senior Citizens.

Talk to be informal, centering on CPSC and its interest in the Seniors. Also availability of the Safety for Older Consumers, Home Safety Checklist.

7:00 Thursday -
Univ. of Hawaii Coop. Ext. Service

CHAIRMAN SCANLON'S TRAVEL
FY 1988 -- 1989

To date, I have committed to the following engagements for the remainder of FY 1988:

Commission of the European Communities (CEC) and,	Brussels, Belgium	4-29-88	Meetings
		thru	
Council Committee on Consumer Policy (of the Int'nal Org. for Standardization)*	Geneva, Switzerland	5-7-88	Two Speeches
CPSC Conference on Swimming Pool Safety	F. Lauderdale Florida	5/19-20/88	Speech
N.Y. Metro Area Society of Consumer Affairs Professionals (SOCAP)	Northern New Jersey	6-13-88	Speech
Mary Heslin (State of Connecticut) and other Connecticut consumer affairs officials	Hartford, Connecticut	6-14-88	Breakfast Meeting
Annual Conference of Association of Food and Drug Officials (AFDO)	Hartford, Connecticut	6-14-88	Speech
Portable Power Equipment Mfgrs. Assn. (PPEMA) Board of Directors	Naples, Florida	6-27-88	Speech

As invitations are accepted and Commission activities warrant, additional travel will be scheduled during the balance of FY 1988 and in FY 1989.

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* Airfare and lodging will not be at government expense.

VICE CHAIRMAN DAWSON'S TRAVEL
FY 1988 -- 1989

Planned travel for 1988-1989 consists of the following at this time:

Group	City	Dates	Purpose
CPSC Regional Pool Safety Conference	Dallas, Texas	4/28-29/88	Keynote Speaker
American Academy of Pediatrics 1988 Spring Session	New York, N.Y.	5-12-88	Plenary Session Speaker
CPSC Pool Safety Conference	Indianapolis, Indiana	6/8-10/88	Keynote Speaker

COMMISSIONER GRAHAM'S TRAVEL

Trips planned for FY 1988 at this time:

Group	City	Purpose
Writing Instrument Manufacturing Assn. Annual Meeting and Show	Nashville, Tennessee	Keynote Speaker
Consumer Safety Week at the Capitol	Providence, Rhode Island	Participate in Opening Ceremonies
Hasbro, Inc.	E. Pawtucket, R.I.	Tour facilities

Thus far, there are no other scheduled trips for FY 1988 and none scheduled for FY 1989. To conserve Commission resources, my office participates only at those events which will disseminate safety information to the largest audience possible.

SES PROMOTIONS

Senator PROXMIRE. I understand that over 50 percent, 7 out of 13 of your senior executive service employees, received promotions this past year. In hearings with the House last month, Chairman Scanlon, you said that the high number of SES promotions was due to good performance. However, both Commissioners Dawson and Graham abstained or voted against many of these SES promotions. Can you tell us why?

Ms. DAWSON. Well, I would have to go back about a year, when we were before this committee last year and we were talking about adopting a policy that would govern how staff would be accountable to the entire Commission. Part of that was in the new policy which we ultimately did adopt.

Commissioner Graham and I are now sitting on the Executive Resources Board and the Performance Review Board, which reviews the performance of those appointees.

In terms of the actual conduct of those meetings, in my view, personnel matters such as those are quite confidential, and I would not want to discuss individuals in public.

Senator PROXMIRE. No; I wouldn't ask for the individual discussions.

Mr. SCANLON. An important factor there, Senator, is that seven were new to the SES Corps, so those would be viewed as increases. You go from a GS-15 into SES; then you get an increase.

Mr. MURR. The new SES members came in at somewhat lower levels, matching whatever their GS-15 salary was, and after serving a probationary period, most of those seven got increases.

Senator PROXMIRE. At what level did they come in?

Mr. MURR. That varied from individual to individual. We had to match or exceed their previous salary, but typically, at the Commission, our practice has been that our Associate Executive Director's level has settled in at an SES 4 level. Most of these people entered lower than that. After serving their probationary period, they were moved from 1 to 2 or 2 to 3, moved a level up, which accounts for so much movement in a short period of time.

Ms. GRAHAM. Senator, you directed the question to me, as well. I would just say that given our budget constraints, I don't think that any increases are in order. While it may be appropriate if it was an extraordinary performance, in many cases, I thought that wasn't the case.

Senator PROXMIRE. That seems very logical to me; due to budget constraints the promotion should be in accordance with extraordinary performance and not across the board or automatic. They might be under previous circumstances when we didn't have the budget constraint.

Mr. SCANLON. All were done in compliance with all civil service procedures. In addition to this, I should point out that the numbers are not excessive.

BONUSES

Senator PROXMIRE. Can you tell us how many of your SES employees received bonuses in fiscal year 1987 and what the bonuses totaled?

Mr. SCANLON. Four; a total of $15,000.

Senator PROXMIRE. Four, so there was about $4,000 apiece? What are the criteria used to determine who receives cash awards?

Mr. SCANLON. Only the career SES'ers receive the cash, and then that would be based on their performance.

Senator PROXMIRE. What were the cash awards last year, total? How many?

Mr. MURR. About $15,000.

Senator PROXMIRE. $15,000, also?

Mr. MURR. For SES awards.

Senator PROXMIRE. How much are you budgeting for cash awards in fiscal years 1988 and 1989?

Mr. MURR. It is done by OPM regulation. You take the total career SES salaries, and then it is a percentage of that that you are allowed to give out as awards. So the number varies slightly depending on the total salary pool. The decision as to who gets them rests with the Chairman after he reviews the performance of each individual. There have been some years where we have given no awards.

MINORITIES AND WOMEN

Senator PROXMIRE. My final to your agency relates to the status of minorities and women. Could you tell me the number of employees you have; how many are minorities and women to begin with? Then I have a followup question.

Mr. MURR. Of the total employees, 46 percent are women, and the total minority is about 29 percent.

Senator PROXMIRE. What percentage are over GS-12 in each category?

Mr. MURR. The grade breakout I would have to provide for the record.

Mr. SCANLON. We can tell you what we consider professional now, and that grade varies according to the directorate.

Mr. MURR. Professional versus clerical.

Mr. SCANLON. 27.8 percent of women are professionals; 7.1 percent of blacks are professionals.

Mr. MURR. Those are black women.

Mr. SCANLON. I am only talking about women now. And 19.7 percent of white women are professionals.

Senator PROXMIRE. Wait a minute. I am not sure that squares. You say 24 percent of your professionals are women. Is that right? But only 17 percent are white women and 7 percent are black women.

-Mr. MURR. Of our total professional work force, which is about slightly less than 400 people not including clerical jobs, over 37 percent of the professional work force are women.

Senator PROXMIRE. Your overall percentage of women, however, is 43; is that right?

Mr. MURR. Over 46 percent.

Senator PROXMIRE. Forty-six percent. Why is there a lower percentage of women who are in professional positions than there is in the total universe of employees?

Mr. MURR. Most of our clerical positions typically are incumbered by women.

Senator PROXMIRE. I must admit that, unfortunately, it is a sad thing, but it is universal throughout the government, whether it is the military or whether it is the civilian sector.

Women seem to be discriminated against in their promotions in professional achievement. I see you have got two fine, very able Commissioners here who are women. That is a fine thing. This about the only agency I know of that has that kind of representation at the policymaking level by women. I think that is great, particularly in this area, where women are particularly interested and concerned and expert.

That is a tribute to your operation, but it seems to me that 7.7 percent is a very small percentage, especially given that the population of Washington is so heavily black and minority. Most of the other agencies have numbers much higher than that.

Mr. MURR. One of our problems in recruitment in general is attracting people to the location. It is not particularly convenient to Metro or bus routes, so you really have to drive an automobile to get there. We experience recruiting difficulties in a number of areas because of that.

Senator PROXMIRE. Difficulties for whom?

Mr. MURR. Across the board. That does cause problems.

Senator PROXMIRE. Are minorities less able to?

Mr. MURR. No; I mean, in general, it is a recruiting problem that we have in getting anyone. It is quite a drive.

Senator PROXMIRE. You will be glad to know that Senator D'Amato arrived just in time. We were just about finished, but I know Senator D'Amato has a very strong interest in this agency, and I am sure he has questions he would like to ask.

ALL-TERRAIN VEHICLES

Senator D'AMATO. Thank you, Mr. Chairman. I am only going to ask a few questions, Mr. Chairman. With respect to the final consent decree which I understand was filed last night, is that right?

Mr. SCANLON. Approximately 9 o'clock.

Senator D'AMATO. How do you plan to enforce the final consent decree in the all-terrain vehicle case, and how much will it cost CPSC in people and money?

Mr. SCANLON. The approximate figure that we are using now is about $100,000 for enforcement this year and probably about $100,000 in fiscal year 1989.

Senator D'AMATO. The centerpiece of the consent decree is a so-called stop-sale of the three-wheeled ATV by having manufacturers buy them back from the dealers; is that correct?

Mr. SCANLON. That is one component of the decree; yes.

Senator D'AMATO. How many dealers are there?

Mr. SCANLON. Approximately 5,000.

Senator D'AMATO. How many CPSC inspectors are there?

Mr. SCANLON. Approximately 150. I am sorry. About 80 inspectors, plus resources that we use in state and local governments, many of whom are under contract to the CPSC.

Senator D'AMATO. How did you know how many three-wheeled ATV's were in the dealers' inventories when the decree was finalized?

Mr. SCANLON. We did a survey through our field structure and we came up with a number of approximately 40,000 three-wheelers on dealership floors.

Senator D'AMATO. Does the consent decree require manufacturers to report the number of three-wheelers that they buy back from the dealers to the CPSC?

Mr. SCANLON. No; but we have been keeping tabs on how many are coming back. We can provide the number to you.

Senator D'AMATO. How will you judge the effectiveness of this program? What are you monitoring this with?

Mr. SCANLON. We will be tracking injury data and death data throughout the 10-year duration of the decree.

Senator D'AMATO. Does the consent decree prevent dealers from reselling used three-wheel ATV's?

Mr. SCANLON. From dealers reselling three-wheelers?

Senator D'AMATO. Yes.

Mr. LACY. No; they wouldn't. No; it does not, but of course, those used three-wheelers will, most likely, if they are being sold through dealers, I would say certainly have new warning labels and the accompanying warning program available to those who would be prospective purchasers.

Senator D'AMATO. Will the used vehicles be subject to the notice warning and training?

Mr. LACY. Yes; they will not be subject to the training. They will be subject to the notice and warning. For example, under our consent decree, the manufacturers have agreed to mail letters to all past purchasers for whom they have addresses.

We figure that that is in the range of 1½ to 2 million individuals. They will receive letters that will have extensive safety warnings with them. They will also receive supplements to their owner's manuals, and they will be asked to affix their supplements to the owner's manuals, so that when these vehicles are sold in the used market, the manuals can go with the machine, and as a final catch-all, they will be mailed new warning labels. They will have instructions on where to affix those labels so that we can catch the used market.

Senator D'AMATO. Do you provide any penalties if they haven't put the labels on?

Mr. LACY. No; we can't reach the individual consumers. The defendants in this case are the manufacturers/distributors, and they can be penalized for not providing the labels with appropriate instructions.

Senator D'AMATO. I know, I was just being a bit facetious.

I have heard that the final consent decree deleted the consumer verification form. I call that a consumer's form to release the manufacturers and the dealers from liability; is that true?

Mr. SCANLON. That is true.

Senator D'AMATO. Why did you finally do that?

Mr. SCANLON. We thought that the disadvantages of the form outweighed the advantages. We were concerned by many persons who said that it would be used against persons suing the manufacturer for product liability.

OGC POSITIONS

Senator D'AMATO. The Fiscal Year 1988 Continuing Resolution specified two special assistant positions be cut from the Office of General Counsel. I understand that in spite of that clear distinction, the General Counsel requests that you add a new position to the Office of General Counsel rather than delete any positions from the office. What action, if any, has been taken?

Mr. SCANLON. One of the two has been deleted. Yes; there was a memo from the General Counsel to me requesting additional staff, and it was rejected.

Senator D'AMATO. What about the other position?

Mr. SCANLON. It will take place no later than March 27.

ALL-TERRAIN VEHICLES

Senator D'AMATO. Mr. Chairman, I am not going to ask any other questions. This matter will be submitted to the court, I believe, on April 18. I will be an intervenor and will be testifying as it relates to this sorry, sorry episode. I think it is a sorry episode, and it is a tragic one. I this think it has been drawn to the altar kicking and screaming as if papa had the shotgun there and he was only there because he got you there. I think the goods are damaged, to be quite candid with you.

I would say that the people here have been the least protected; that it has been the manufacturer who has had the total protection of this agency, and that you have countenanced this incredible debacle on the American people for far too long.

I think that the consent decree, notwithstanding the drop, the release from liability sham, which, of course, you will say that the manufacturer never wanted that. I wouldn't know why he wouldn't. I mean, I think he prepared it, every detail. My God, if I don't wear boots and coats and long sleeves and goggles and what-not, I am responsible. If I don't warn warn this one, that one and the other one of the consequence of riding this, the most incredible document I have ever seen, and the Justice Department should be ashamed of itself for even suggesting that that be included in the decree, Mr. Chairman. I am just shocked.

Notwithstanding this, I think that the fact remains that maybe we have attempted to bring to the American public and consumer the dangers involved here; possibly, we have helped save some lives and some injuries that otherwise wouldn't have taken place.

I still believe that at the very minimum that people should be given the opportunity to reclaim those monies for whatever the value of the three-wheeled vehicle is that is out there. Those people can make that choice. I think that is the very least that this Commission should have pursued.

I must say that I think it was a rather sorry display by an agency that calls itself the protectors of the American public, the consuming public.

Mr. Chairman, let me say this to you. I thank you and your staff for your help and your efforts and for your concern in this matter. It is one that is large and that I am pleased to share with you.

Senator PROXMIRE. Thank you, Senator D'Amato. I told you Senator D'Amato felt very strongly on this, and rightly so. This is certainly a terrible tragedy that we are pressing forward.

Senator Grassley?

Senator GRASSLEY. You know, it wasn't possible for me to be here at the opening statement. I didn't think I would even be able to come at all because of the Agriculture Subcommittee.

Senator PROXMIRE. Do you have an opening statement? I would be happy to hear it.

Senator GRASSLEY. No; I don't have an opening statement, but I did have questions prepared that I was going to send because I didn't think I was going to be here.

Senator PROXMIRE. Ladies and gentlemen, thank you very, very much. Once again, I want to commend you on the fine balance of your panel. You have two very distinguished women that serve you so well. Thank you.

SUBMITTED QUESTIONS

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR PROXMIRE

ATV INJURY RATE

Question: On page 5 of your justifications you estimate that the ATV injury rate will decline by over 50 percent between 1984 and 1992, in part as a result of CPSC's involvement over the past four years. How did you arrive at that 50 percent estimate?

Answer: The CPSC began looking at hazards associated with ATV's in early 1984. The Commission held its first hearing in October, 1984. An action plan which included the activities described below was subsequently approved in April, 1985. The Commission considers 1985 the appropriate year on which to base projections. In 1985, there were an estimated 86,000 emergency room treated injuries and an estimated 1.9 million ATV's in use, resulting in an estimated 45 hospital treated injuries per 1,000 ATVs in use.

In 1987, there were an estimated 77,400 hospital treated injuries with 2.5 million ATVs in use, or an estimated 31 injuries per 1,000 ATVs in use. This is a reduction of about 10 percent in the number of injuries and a reduction in the injury rate of about 30 percent.

During the 1985-1987 period, the Commission conducted a variety of activities which we believe helped reduce the rate of injuries. The Commission developed five consumer safety alerts, completed six public hearings around the country, supported an ATV Task Force report, published an ANPR, and held hundreds of media interviews, all of which helped inform consumers of ATV hazards and thus helped reduce the injury rate. These activities also helped shift the market to more 4-wheeled ATVs.

In projecting the continuing trend of injury reduction through 1992, the above mentioned activities will continue to have an effect. We have also assumed a reduction in the number of 3-wheeled ATVs that will be sold, the increased use of training, and benefits from labeling, new marketing of, and media coverage concerning ATVs in general.

REGULATED PRODUCTS

Question: You are requesting $4,015,000 and 71 positions for "Regulated Products" in FY 1989, a decrease of two positions below your current level of 73. In last year's justifications you indicated that you would require only 57 positions for "Regulated Products" in FY 1988, but as you indicated, 14 additional positions will be needed to implement a comprehensive plan for monitoring compliance with all CPSC regulations.

How much will be spent to implement this new enforcement plan in FY 1988 and 1989?

Answer: Approximately $800,000 will be spent in both 1988 and 1989 to implement this new enforcement plan. This amount will support increased marketplace surveillance, surveillance inspections, and import surveillance activities.

Question: Exactly when will the new compliance monitoring system be in place?

Answer: The comprehensive plan is a three to ten year plan to systematically assess industry compliance with all existing mandatory regulations. The staff is still developing the overall plan for the 10 year period; this should be completed by mid-May. However, for 1988, two activities have already been implemented and the third will be implemented before the end of the fiscal year.

Question: You indicate 14 positions for the new enforcement effort are being transferred primarily from Section 15 activities. What impact will this transfer have on your Section 15 program?

Answer: The transfer of Agency field resources from the Section 15 activities subprogram is not expected to adversely affect the program. Resources allocated to it have been underutilized during the past several years; staff support remaining in the Section 15 program will actually be greater than that used in previous years. In addition, the Section 15 effort is being enhanced by the addition of $10,000 to conduct an industry conference that will promote increased reporting of hazardous products to CPSC.

VOLUNTARY STANDARD CONFORMANCE

Question: You are requesting $66,000 for voluntary standards conformance in 1989, an increase of 44 percent over your current budget of $46,000. However, according to page 44 of your justifications, inspections conducted and samples collected will remain the same. Wouldn't it be logical to expect inspections and sample collections to increase given such substantial budget growth?

Answer: The complexity of the voluntary standard being monitored and the manner in which the monitoring is conducted affects the time needed to conduct inspections and the need to collect samples. In addition, the type and extent of any product examination that must be conducted by the CPSC technical staff to assess conformance with the voluntary standard affects the overall resources needed.

It should also be noted that FTE support for voluntary conformance monitoring will in total remain the same in 1989 as in 1988. While the percentage cost increase appears large, the added amount is only $20,000, which will be primarily used for mandatory cost increases rather than increased inspection time.

Question: Although you budgeted 20 percent less for voluntary standards conformance in 1988 than in 1987, you plan to conduct almost three times as many inspections and increase sample collections from two to 50 in 1988. Can you tell us how you are able to do so much more with less money?

Answer: Despite the slight reduction in funding for voluntary standard conformance monitoring, we expect to be able to conduct more inspections and collect more samples because of the nature of the standards involved. The three voluntary standards addressed in 1987 involved extensive on-site product screening and thus limited sample collection. In 1988 and 1989, we anticipate needing less time to actually conduct each inspection, thereby permitting more to be undertaken, but expect to collect more samples for later analysis instead of performing the screening on-site.

We should also note that 17 rather than two samples were collected in 1987, the latter being a typographical error in the justification document.

FIELD STRUCTURE

Question: A 1985 management review task force recommended streamlining CPSC's field structure from 5 regional offices to 3, and reducing the number of total resident posts to about 20. You testified before the House last year, Chairman Scanlon, that an implementation plan was being considered at that time. Has a plan been approved and initiated?

Answer: Yes, the new Field reorganization has been approved and is being implemented. The reorganization changes the Commission's structure from 5 regional offices and 31 resident posts to 3 regional offices and 30 resident posts. The new structure maintains the Commission's presence in high population and manufacturing areas and allows for an improved consumer information strategy.

The reorganization is being implemented in two phases. Phase One involved the transfer of managerial and administrative support personnel from 5 to 3 Regional Centers. These actions were effected during July of 1987, and we have been operating under a "three-region" structure since that time.

Phase Two, the staffing of our new and expanded resident posts, will be implemented over the course of the next two to five years, depending upon the availability of permanent change of station funds to support the relocation of existing Field personnel to the new sites. We anticipate that an additional $350,000 will be necessary for implementation.

RESIDENT POSTS

Question: In the past, the House Subcommittee had recommended that no Resident Posts be staffed by only one person. Apparently you had 21 single-person Resident Posts as of last year's hearings. You told the House that you planned to reduce the number of single-person Resident Posts to five. Have you accomplished that goal?

Answer: We continue to work toward the goal of 5 single

Resident Posts; currently, we have 15. We plan to reach that goal in the next two to 5 years, depending upon the availability of permanent change of station funds, which are necessary to bring about this change.

CLEARINGHOUSE

Question: You are requesting $345,000 for your clearinghouse project in FY 1989. This would provide you with virtually a level budget. However, between 1987 and 1988, your clearinghouse budget grew by $55,000 -- about 19 percent. On the other hand, your ability to process clearinghouse data requests is projected to increase by only 3 percent -- from 6,200 to 6,400 -- between 1987 and 1988.

Why isn't that 19 percent budget increase producing a more significant increase in your ability to process clearinghouse data requests?

Answer: Our ability to process clearinghouse data requests remains approximately the same because about the same amount of staff time will be devoted to the project in both years. While there is an apparent increase of one FTE, not shown in 1987 is slightly over one FTE of overtime used to address the Clearinghouse backlog. Overtime hours are not shown because they are not considered by Federal agencies in determining FTE ceilings and reporting usage.

The 19 percent funding increase includes mandatory increases such as pay raises and increased FERS retirement costs, as well as a slight increase in clerical support. In order to improve efficiency, the Clearinghouse will also use personal computers and word processing equipment more extensively. Such one-time purchases will help reduce the need for overtime use in 1988 and 1989.

PUBLIC INFORMATION SERVICES

Question: Lest I appear to be too critical, Chairman Scanlon, let me move to another area where you seem to be producing spectacular results.

You are requesting $1,713,000 in FY 1989 for public information services, an increase of $89,000 over your current budget of $1,625,000. However, and this is most impressive, you are processing about 25,000 more hotline calls and 3,200 more Freedom of Information Act requests in 1988 than you indicated you would be processing in last year's justifications, even though you had cut the budget for this activity by $30,000 and your staff by 5 below your initial request. Can you tell us how you achieved this productivity gain?

Answer: We plan to increase hotline productivity through use of automated answering equipment purchased late in 1987 which will permit many requests for information to be handled automatically.

We are also installing new sound-proofed work stations that create a working environment conducive to better concentration, enabling hotline staff members to work more productively. Finally, contract employees will soon replace current hotline operators providing more economical staffing with flexibility to increase or decrease the number of operators as needed for peak and non-peak periods.

While not evident in the total figure, one FTE has been added to the Freedom of Information project to help address the continuing increase in requests received. Some of the improved production also results from increase utilization of word processing equipment and better automated tracking systems.

PRIORITY PROJECTS/RIDING MOWERS

Question: As you know, Chairman Scanlon, we are operating in a severe budget climate and this makes the issue of priorities all the more important.

In last year's Committee report, the House requested that you submit a report on CPSC's criteria and methodology used in developing its priority projects. The report you submitted in response last December indicate that the most important criteria are: 1) the number of deaths and injuries caused by the product, 2) probability of success in addressing the problem, 3) the vulnerability of the population at risk.

One of your priority projects is Riding Mowers for the fifth year in a row. Your justifications indicate that there are 75 deaths annually associated with riding mowers. One might assume that little progress is being made in making riding mowers safer since it has been a priority project for five years.

Can you tell us why this project is worthy of being a priority project for the fifth year in a row?

Answer: The current fiscal year (1988) marks the fourth year that riding mowers has been a priority project. While we believe it is important to complete this project as originally planned, with our efforts continuing through 1991, it has not been selected as a priority project in 1989. The Commission was aware in 1985, when this became a priority project, that it was likely to take seven years to study and resolve the complex off-road vehicle dynamics and human factors issues involved. These are areas where little or no prior research had been done, involving the dynamic stability of the vehicle on slopes, its steering and braking capabilities, the interaction between the tires and the mowing surfaces, and the interaction between the operator and the vehicle. To resolve these safety issues requires extensive engineering and human factors testing.

While Riding Mowers will not continue as a designated priority project in 1989, it still meets our criteria and is an extremely important project as our recently completed hazard analysis shows:

1. Injuries and Deaths

   Statistics compiled from 1983 through 1986 indicate that an estimated annual average of 19,100 injuries related to ride-on mowers were treated each year in hospital emergency rooms in the United States and its terriorities during that time period. An estimated 7 percent of these injuries were determined to require hospitalization at the time they were treated in the emergency room. This was almost twice the estimated percent of hospitalization for all consumer product-related injuries treated in hospital emergency rooms during that same time period. The number of injuries that resulted in death from ride-on mowers is estimated at about 75 a year.

2. Probability of Success

   Once we understand the vehicle dynamics with all its complexities, and how they relate to the accident scenarios, we know that significant vehicle changes can be imposed without altering the basic utility of the product and we anticipate a high probability of success in being able to reduce injuries and deaths. Preliminary cost-benefit relationships also support the probability of success.

3. Population Vulnerability

   About half of all injuries treated in hospital emergency rooms were to those under 16 years of age and those over 55, and about 60 percent of the deaths reported to CPSC were to children under 5 and adults over 65.

We believe the work already completed plus that planned for the remainder of the project will establish a firm basis for the recommendations that we will be making to improve the voluntary standard. This same data will also provide the evidence to support mandatory standards if that approach should become necessary.

Question: Last July revisions to a voluntary standard for riding mowers and lawn garden tractors went into effect. How many injuries and deaths do you project will be prevented as a result of these revisions?

Question: How did you arrive at that figure?

Answer: With respect to the operator presence system, we estimate that there is a potential for reducing about 70 percent of all blade contact injuries, or one in every 9 riding type power mower injuries treated in hospital emergency rooms. This projection was derived from the hazard analysis, recently completed, and by estimating the number of injuries which meet the criteria of blade contact that occurs after the operator has left the mower seat. However, this potential reduction will not be realized until the operator presence system requirement is coupled with a sufficiently short blade stopping time. Commission and industry studies are currently underway to establish this time.

Question: How much will be spent in FYs 1988 and 1989 on riding mowers?

Answer: Planned expenditures for FY 1988 and 1989 are $488,000 and $459,000, respectively.

PLAYGROUND EQUIPMENT

Question: One of CPSC's priority hazard projects for 1989 will be playground equipment. On page 5 of your justification you say that "hazard and human factors analyses will be performed on playground equipment." What exactly does this mean and how much will be spent on this effort in FY 1989?

Answer: The Playground Equipment priority project will cost $464,000 in total. Of this amount, $314,000 will be required for hazard and human factors analyses. The Hazard Analysis staff will devote much of their time to assembling, sorting, and tabulating data in preparation of a playground equipment hazard analysis. This analysis will describe the frequency and severity of injuries and major hazard patterns related to various types of playground equipment.

The Human Factors staff will analyze accident data to identify how the relationship between users, products, and the environment contributed to accidents. They will initiate and monitor a contract to identify children's developmental patterns and age-specific characteristics (motor skills, cognitive ability, size, strength, etc.) of play behavior on playground equipment, and the types and sizes of equipment best suited for these patterns and characteristics. In addition, Human Factors staff will develop criteria to be used in revising current handbooks, drafting new handbooks, and initiating voluntary standards efforts.

Question: Can you tell us how many deaths and injuries were attributable to playground equipment in 1987?

Answer: In 1987, an estimated 198,000 injuries and 8 deaths were attributed to playground equipment accidents. Approximately 40 percent of the injured victims were under 5 years of age.

INDOOR AIR

Question: One of CPSC's priority projects for 1989 will be indoor air quality. One of EPA's current concerns is radon, an indoor quality air issue. Will any of your indoor air quality efforts be devoted to radon, and if so, how will you divide responsibility for this activity with the Environmental Protection Agency?

Answer: We do not plan to conduct any work on radon. Radon is a natural pollutant and is not contained within or produced by a consumer product. Thus, it is currently outside of CPSC's jurisdiction.

Question: Can you give us a rough idea of what kinds of indoor air quality issues you will be dealing with that are not covered by EPA's mandate?

Answer: Although the Commission cannot establish overall indoor air quality standards, clearly it has jurisdiction over the consumer products, appliances and building materials contributing to indoor air pollution. Furthermore, these sources cannot be regulated under EPA's mandate.

Specific product-related sources of indoor pollutants include emissions from gas space heaters, kerosene heaters, coal and wood stoves, gas cooking appliances, and formaldehyde from pressed wood products. Also, biological pollutants from appliances such as humidifiers and air conditioners, asbestos fibers from various sources in homes, and volative organic pollutants come under CPSC's jurisdiction and are candidates for investigation.

CIGARETTE SAFETY STUDY

Question: In December, 1987 we received a copy of the cigarette safety study. How much was spent on this study?

Answer: The total cost was $2.4 million, including $0.3 million for CPSC salaries and benefits. This excludes salary costs of non-CPSC Federal employees participating in the project.

Question: You indicated in a report to the Congress on the cigarette safety study that it would cost $500,000 over two years to implement its recommendations. Do you plan to pursue those recommendations and, if so, how much will this cost in 1988 and 1989?

Answer: There is no plan to pursue these recommendations without explicit direction and supplemental funding from Congress. The Commission's jurisdiction does not include tobacco and tobacco products.

CPSC ADMINISTRATIVE STRUCTURE

Question: As you all know, there has been some discussion in the past on altering the structure of the Commission. Can you give us a rough idea -- and provide details for the record -- of how much the Federal government could save if the Congress changed the administrative structure from three Commissioners to one?

Answer: The annual cost of supporting two Commissioners other than the Chairman is approximately $500,000. The cost is broken down as follows:

Commissioner salaries	$155,000
Staff salaries	$245,000
Benefits	$ 48,000
Operating and overhead costs, including travel	$ 52,000
Total	$500,000

REIMBURSABLE PROGRAM

Question: According to the Appendix to the President's budget, your reimbursable obligations will drop from $452,000 in 1987 to $160,000 in 1988. Last year's justifications estimated reimbursable obligations of $798,000 in 1987 and $754,000 in 1988. Why have last year's projections changed so dramatically?

Answer: The reimbursable estimate of $754,000 included expanded participation in CPSC's National Electronic Injury Surveillance System (NEISS) by other Federal Agencies. Of the $754,000, about $685,000 was to be used for additional NEISS data collection efforts. However, governmentwide budget cuts had a severe impact on CPSC's reimbursement program as other Agencies elected to terminate ongoing NEISS data collection or not to begin participation in NEISS. Some individual Agency data collection efforts will no longer be supplemented by NEISS data and others, such as CDC's injury control program, are being phased out altogether. Discussions are still being conducted, but we are not optimistic that other Agencies will purchase NEISS data as they have in the past.

Question: Three civil penalties for failure to report hazardous projects to CPSC have been settled in FY 1988 to date. The total settlement was $473,000.

How many civil penalties do you estimate will be settled in FY 1989?

Answer: It is difficult to estimate the number and amount of civil penalty settlements for a future fiscal year. They depend upon the number and nature of the violations we find. During the 1980s, civil penalty settlement dollar totals per fiscal year have ranged from a low of $35,000 in 1984 to a high of $974,250 in 1982. We believe that, in general, industry has improved its reporting, but are still surprised to find significant instances of non-reporting. We plan to conduct an industry conference this year to promote increased reporting, which we hope will result in the need to impose fewer penalties in 1989 and beyond.

Question: I assume these funds go directly to the Treasury, is that correct?

Answer: Yes.

EQUIPMENT BUDGET

Question: Last year at this time you were planning to spend $303,000 on equipment in 1987. You actually spent more than twice as much -- $671,000 to be specific. Can you tell us why?

Answer: In an effort to continue to implement the Commission's ongoing five year office automation plan, funds that became available during the fiscal year because of staffing vacancies were spent on much needed computer equipment. The additional funds were used to purchase computer terminals, central processing units, and auxiliary equipment. The ultimate goal of our plan is to provide word processing, spreadsheet, and electronic mail capabilities for all Commission employees, including those in the Field.

ADVICE AND CONTINGENCIES

Question: You are requesting $534,000 and 10 staff or Advice/Contingencies, a 51 percent reduction below the current level of funding but an increase of two positions. If you are cutting this subprogram so deeply, why do you need two additional positions?

Answer: The reduction in funds in this subprogram represents contract funds which were set aside in 1988 for ATV litigation. In view of the recent agreement concerning ATVs, the Agency currently does not believe ATV litigation will be necessary in 1989.

The increased FTEs in the Advice/Contingencies subprogram are not related to pending litigation. The FTEs provide investigational resources to react to compliance problems for which no specific project has been identified. The amount represents our estimate of staff time, primarily in the Field offices, which will be dedicated to currently unprogrammed work. We are not proposing an increase in Field staff for 1989; should fewer contingencies arise than expected, the staff time will be used in other compliance areas such as Section 15 work.

LAWN DARTS

Question: How much has been spent on voluntary compliance in FY 1987 and how much will be spent in FY 1988?

Answer: When the Commission initially developed its 1987 and 1988 budget requests, there was no plan to recommend or monitor voluntary compliance with the six additional lawn dart actions which we feel will greatly improve the safety of this product. We were, therefore, required to divert approximately $72,000 in 1987 and $90,000 in 1988 from other compliance activities to examine whether manufacturers voluntarily adopted our recommendations. These amounts are, of course, in addition to CPSC's ongoing effort to enforce compliance with the lawn dart regulation promulgated in 1970.

MANAGEMENT

Question: Last year there was a discussion of Commission management problems at both the House and Senate hearings. Commissioner Dawson, you said that you and Commissioner Graham were particularly concerned with having better accountability of the senior staff to the entire Commission. Would you say that the situation has improved over the last year, and if so, what has brought about the change? Commissioner Dawson? Commissioner Graham? Chairman Scanlon?

Answer: Chairman Scanlon: Generally speaking, I believe the CPSC is operating more smoothly now than at this time last year due, in part, to the implementation of a set of "General Policies" by the Commission. These "General Policies," which were unaminously adopted on March 18, 1987, have given Commissioners, other than the Chairman, more of a role in the appointment and evaluation of top Commission staff and have provided for presentation, to the Commission, of minority or dissenting staff views. Also, receipt, last May, of a Justice Department opinion on the extent of the Chairman's authority in the area of administrative reorganizations has helped clarify matters. Perhaps as a consequence, the Commission has devoted less time to internal management matters in recent months, a trend I hope will continue.

Answer: Vice Chairman Dawson: I am happy to have an opportunity to give you my thoughts on management problems at CPSC, since they are matters about which I have definite opinions.

As you are aware, in mid-1986, the Commission majority determined that there was a need to achieve better senior staff accountability. Reform was essential because rational Commission decisionmaking demands the honest, unbiased work-product of its staff as its basis.

Following months of discussion during 1986-1987, the Commission finally reached agreement on a set of general policies in March 1987. Attached is a copy of those policies. One of the most critical components of those new policies, the Commissioners' involvement in personnel procedures, required approval of the Office of Personnel Management. For a variety of reasons, partly the time it took to gain OPM's approval of the changes and for other essentially bureaucratic reasons, some parts of that policy change did not take effect until quite recently. For example, the performance appraisal element covering responsiveness of senior staff to the collegial body only became effective in mid-March 1988.

So, despite its best efforts, under the current statute, the Commission majority still has not had sufficient impact on administration of the Agency for me to say that accountability has actually improved.

I am still not confident that staff feels free to provide its views on all safety issues if these views are at variance with those of the Agency's top executives. Such freedom is an essential ingredient for a collegial body to function in a competent, independent, and professional manner.

Consequently, I must reserve judgment until effects of the new policies can be assessed. Additional changes in the statutory quorum from three to two, plus other recommended chain-of-command changes, such as the hiring and firing of top staff, are absolutely essential to ensure a more effective Commission. I strongly urge their adoption.

Answer: Commissioner Graham: No. I do not believe that the senior staff have become more accountable to the Commission as a whole. I am still concerned that when the Chairman is not part of the majority the majority's views are not being upheld. One of the problems with the lack of accountability lies with the nature of the Office of the Executive Director. One of the primary functions of the Executive Director is to ensure that the senior staff be responsive to the needs of the individual Commissioners. If the Executive Director deems it important that the senior staff be responsive to the Commission as a whole, the senior staff who report directly to the Executive Director will more than likely be responsive. If, on the other hand the Executive Director, who is one of the rating officials of the se~~nior staff,~~ does not find it important that the senior staff be responsive to the Commission's requests as a whole, they will not be.

I endorse the provision in H.R. 3343 which would give the majority of the Commission hiring and firing authority over the senior staff. More than that, however, I think it would be helpful if a majority of the Commission had hiring and firing power over the Executive Director whose responsibility it is to ensure that the senior staff are accountable to the Commission as a whole.

UNITED STATES GOVERNMENT

MEMORANDUM

U.S. CONSUMER PRODUCT
SAFETY COMMISSION
WASHINGTON,D.C. 20207

March 19, 1987

TO : Distribution

FROM : Sadye E. Dunn, Secretary SDunn

SUBJECT: General Policies Document

Attached for your information is a copy of the General Policies Document approved by the Commission on March 18, 1987.

March 18, 1987

GENERAL POLICIES

In an effort to ensure that the Consumer Product Safety Commission functions as effectively as Congress intended and that the Commission staff is responsive to the needs of the collegial body in providing information necessary for it to carry out its statutory responsibilities in accordance with sections 4(f)(1) and 4(f)(2) of the Consumer Product safety Act (CPSA), the Commission adopts the following general policies:

Section 1. Pursuant to section 4(f) of the CPSA, it shall be a general Commission policy that:

(a) The Chairman of the Commission will appoint two other Commissioners to serve as full voting members of the Executive Resources Board/Performance Review Board (ERB/PRB), for the purpose of fully participating in the review and evaluation of the performance of career and non-career Senior Executive Service (SES) employees. Such review and evaluation shall be limited to an assessment of the individual's performance in relation to rating elements established under paragraph (b) of this section. If the Commission consists of more than three members, the Chairman, if possible, shall not appoint

Commissioners affiliated with the same political party to serve on the ERB/PRB.

(b) The ERB/PRB shall establish performance elements that describe the responsibility of each of the positions enumerated in section 4(g)(1) with respect to formulation and implementation of Commission policy. Such elements themselves, as well as their weight and criteria, shall be developed in consultation with the full Commission.

(c) Following establishment of the performance elements described in Subsection (b), the Chairman will arrange for draft copies of the semi-annual performance review and annual performance evaluations based on these elements to be provided to the other Commissioners for their comments. Such copies shall be provided on a confidential basis at least 10 days prior to their formal submission to the PRB, PSRB and the Chairman, whichever submittal is earliest.

(d) After copies of the reviews and evaluations outlined in Subsection (c) have been provided to the other Commissioners, the Executive Director shall meet with the other Commissioners to discuss their comments and shall forward their comments to the appropriate reviewing authority. The PRB recommendations shall be provided to the other Commissioners at least 20 days before the Chairman is scheduled to make a final decision. Other Commissioners shall also have an opportunity to discuss any recommendations made by the PRB with the Chairman, provided they do so at least 10 days before the Chairman is scheduled to make a final decision.

(e) The Executive Director and the General Counsel will be available to conduct, either separately or jointly, informal issue briefings for the staffs of all the Commissioners. Such briefings shall be scheduled in a timely manner and may include other Commission managers as circumstances may warrant.

(f) The provisions of Subsection (a) shall become effective only after the Commission has revised its regulations governing the ERB/PRB. These revisions shall be submitted to the Commission for a vote within 30 workings days from the date these principles are adopted and shall be approved by the Office of Personnel Management (OPM) before taking effect. To accommodate the appointments specified in Subsection (a), the revised regulations shall provide for an increase in the size of the ERB/PRB from 6 to 7 while continuing to ensure that a majority of persons serving on each panel are career federal employees. Subsections (a) through (f) are subject to OPM approval.

Section 2. Pursuant to subsections 4(f) and 4(g) of the CPSA, it shall be a general Commission policy that:

(a) The Chairman shall consult in advance with the other Commissioners concerning the appointment of an individual to fill the 4(g)(1) positions in question below on an acting basis. Such consultation shall include an explanation of the reason(s) for the appointment and shall be in addition to the 5 days' notice already required.

(b) A vacancy in the post of Executive Director or General Counsel may be filled on an acting basis for a period not to exceed 180 days. If, upon the expiration of 180 days, a majority of the Commission has not approved the continued tenure of an individual serving as the acting Executive Director or acting General Counsel, that individual's appointment as the acting head of that office shall automatically terminate. That individual shall not then be appointed to a second term as either acting Executive Director or acting General Counsel, or to any other section 4(g)(1) office, without approval by a majority of the Commission.

(c) A vacancy in the posts of Associate Executive Director for Engineering Sciences, Associate Executive Director for Epidemiology, or Director of Information and Public Affairs may be filled on an acting basis for a period not to exceed 180 days. If, upon the expiration of 180 days, a majority of the

Commission has not approved the continued tenure of an individual serving as the acting Associate Executive Director or Director of one of these offices, that individual's appointment as the acting head of that office shall automatically terminate. That individual shall not then be reappointed to a second or new term as acting Associate Executive Director or Director of that or any other Section 4(g)(1) office without approval by a majority of the Commission.

Section 3. Any Commissioner(s) may send a written complaint or comment to the Chairman regarding the performance of the Executive Director or General Counsel. A copy shall be sent to the subject employee who may respond in writing to the Chairman and Commissioner(s) involved. The complaints, comments, and responses will be confidential and not disclosed.

The Chairman shall pay particular attention to any complaint or comment signed by a majority of the Commissioners in taking disciplinary action or giving a performance rating to the subject employee.

Section 4. Pursuant to section 4(f)(2), it shall be a general Commission policy that:

(a) Any major reorganization of the agency's structure shall be subject to prior approval by a majority of the Commission. "Major reorganization" is defined as the creation, abolition, consolidation, or transfer of any office or directorate or division; provided however, that the inclusion of "divisions" shall be contingent on the determination of the Department of Justice with respect to the transfer of the Human Factors division. [That is, if the Chairman's transfer of Human Factors is found to be lawful, then the term "divisions" would be deleted from the type of reorganization that requires Commission approval and conversely, if it is found to be unlawful, the term "divisions" would remain as a type of reorganization that requires Commission approval.]

(b) The procedures of this section shall be in addition to the prior decision of the Commission dated November 30, 1976, concerning the ten-day notification of reorganizations by the Chairman.

(c) When the Chairman proposes to undertake a major reorganization, he shall notify the Commission in advance, in writing, of the purpose of the reorganization, including the benefits to be realized, the costs of the reorganization and any possible detrimental effects to the future structure and staffing patterns of all organizational units subject to or affected by the reorganization.

d) The provisions of this policy shall not apply to any major reorganization approved by a majority of the Commission in its operating plan or budget, since those decisions reflect a policy decision of the Commission.

Section 5. It shall be a general Commission policy that the Executive Director has an affirmative obligation to present all reasonable positions and alternative courses of action on issues being sent to the Commission for consideration. The Executive Director may recommend a particular option, but he shall be responsible for notifying the Commission in advance when there exists significant debate among the staff about an issue or when such an issue raises significant policy implications for future Commission action. All briefing material forwarded to the Commission shall contain any relevant minority or dissenting views from staff members who are involved in the subject matter of the briefing materials. If there are no known minority or dissenting views which a staff member wants brought forward, the Executive Director shall make an affirmative statement to that effect. Staff members working on the subject of the briefing material, including those subject to 6(b) procedures, shall be permitted to append to that briefing material any memoranda and other documents they feel will help the Commission reach an informed decision on the subject, even if those memoranda or documents challenge the views of the Executive Director or other members of the staff.

Section 6. Each general policy shall take effect immediately upon its approval by a majority of the Commission except as noted above. The provisions of each general policy relating to personnel shall apply to all employees holding the posts that are subject to the policy regardless of when their appointments were made.

Section 7. None of these general policies shall be deemed to supersede any applicable federal laws or regulations and they can be revoked or amended by a majority vote of the Commission at any time.

U.S. CONSUMER PRODUCT SAFETY COMMISSION
WASHINGTON, D.C. 20207

OPENING STATEMENT
BY COMMISSIONER CAROL G. DAWSON
COMMISSION MEETING ON PROPOSED GENERAL POLICIES
MARCH 18, 1987

Thank you, Mr. Chairman. I am pleased to have this opportunity today to settle the question of our proposed general policies, a matter that has been before the Commission for over seven months.

We all know that reasonable people can disagree on matters. In a collegial system, such disagreements can make the system seem complicated. Nevertheless, this agency has operated under a collegial system since its inception and, while there may have been problems along the way, there have also been notable achievements. I firmly believe that the continuity, stability, and independence provided by a collegial system provide benefits that far outweigh any disadvantages.

One of those benefits is that the collegial body can act, by majority vote, to correct imbalances or make needed changes in policy to improve the operation of the agency.

The current debate over our general policies proposal has given me an opportunity to review the history of CPSC in the context of its statutory mandate to set policy. It has been a very useful and educational experience. Now, however, it is time to put this issue behind us and continue to concentrate on the business at hand and carry out our mandate to protect consumers from unreasonable risks of injury.

The proposed general policies were designed with one major goal in mind: to improve the efficient operation of this agency. To do so, they provide for procedures by which senior staff accountability to the entire Commission can be assured. They also set in place additional procedures to guarantee the free flow of information to the Commission.

Regrettably, we have had disagreements over what methods were best to achieve these goals, since I am sure all of us agree on the overall objective of making sure the collegial system works as Congress mandated.

When Commissioner Graham and I first proposed these policies last summer, they had already undergone extensive review and numerous revisions. However, in the spirit of collegiality and in a sincere effort to resolve the matter, we have made several key concessions in two subsequent redrafts. Recently the Chairman, also in the spirit of compromise, offered us a proposal which in many ways contains some excellent suggestions. It doesn't address some of our key concerns adequately, however, such as in the area of acting appointments. Its biggest drawback, however, is that it seems to say the procedures proposed by the Chairman cannot be adopted by Commission vote but may only be enacted by the Chairman's voluntary action. I just don't agree with that contention.

I have been reading new and old briefing material and legal memos on this issue for months. I have studied historical material and discussed the issue with others having expertise in this area. I don't claim to have all the answers, but there is no doubt I have considered all sides of the proposal. The current policies were proposed after a great deal of thought and only as a sincere effort to make the collegial system work. There is no intent to use these policies, once adopted, in a frivolous or capricious manner. These policies would be used only in extreme cases and with great caution. They have appropriate due process and other safeguards built into them. If unforseen difficulties arise in their implementation, nothing prevents this or any future Commission from amending the policies to correct any deficiencies.

Before we go on, I want to thank all of the staff who have worked on this matter, regardless of the opinions you expressed. You have helped me immensely as I challenged my own thinking on this issue and reconsidered my views on every facet of these proposed policies.

I hope we can finish the long debate on this matter today. If the Chairman remains dissatisfied after today's meeting, I certainly have no objection to submitting the issue to the Department of Justice for a ruling.

QUESTIONS DIRECTED TO COMMISSIONER GRAHAM

Question: I would like to talk now about lawn darts. Lawn darts have been responsible for killing three children and injuring 6,100 people between 1978 and 1986. On March 2, CPSC voted 2-to-1 to mandate five separate industry actions to address hazards to children associated with lawn darts. Commissioner Graham, I understand you dissented on this vote. Can you tell us why?

Answer: I dissented from the majority decision to implement certain non-regulatory action with regard to lawn darts because I believe these actions will not adequately reduce the hazard presented to children by this product. The motion I offered would have authorized a notice of proposed rulemaking to ban lawn darts, and at the same time make clear that if a firm develops a product which does not present a puncture hazard to children, the firm can apply for an exemption to the ban. I believe that the majority's decision cannot be expected to accomplish their intended purpose -- namely to prevent potential serious injuries from lawn dart use by children.

Question: On page 5 of your justifications you estimate that the ATV injury rate will decline by over 50 percent between 1984 and 1992, in part as a result of CPSC's involvement over the past four years. How did you arrive at that 50 percent estimate?

Answer: Even though I have not been requested to respond to the above question, I believe that this is an important issue that needs to be addressed by each Commissioner. According to a February 29, 1988 memorandum by Nick Marchica, the Chairman of the ATV Task Force, "It is not possible to attribute the specific injury reduction rate to each of the activities the Commission undertook between 1985 and the end of 1987." Marchica goes on to state, "obviously, the five consumer safety alerts, the publication of the ANPR, six public hearings, the Commission briefings and meetings, the ATV Task Force report, and hundreds of media interviews by the Commission and staff have contributed to the reduction." However, nowhere in the Marchica memo is there a real explanation as to how much the Commission's activities really attributed to the injury reduction. Furthermore, there is no explanation as to how many deaths will be prevented by this decree.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF CONSUMER AFFAIRS

STATEMENT OF VIRGINIA H. KNAUER, SPECIAL ADVISOR TO THE PRESIDENT FOR CONSUMER AFFAIRS

ACCOMPANIED BY:

- **PATRICIA A. FALEY, DIRECTOR, ORGANIZATIONAL LIAISON, OFFICE OF CONSUMER AFFAIRS**
- **FRANK R. MARVIN, DIRECTOR, MANAGEMENT STAFF OFFICE OF CONSUMER AFFAIRS**
- **WAVERLY LAND, DIVISION OF OS BUDGET SERVICES, DEPARTMENT OF HEALTH AND HUMAN SERVICES**

BUDGET REQUEST

Senator PROXMIRE. Our next witness is Virginia Knauer. I won't say an old friend, but a good friend, who has served for years with distinction in the Office of Consumer Affairs.

Mrs. Knauer, it is a pleasure to have you before the subcommittee once again. Your Office continues to accomplish a great deal with a very small budget. You are requesting $1,708,000 for the Office in fiscal year 1989, an increase of only 2 percent over your current estimate. So why don't you summarize your prepared statement with the understanding your statement in its entirety will be printed in the hearing record, and then we will proceed to ask questions.

Mrs. KNAUER. Thank you, Mr. Chairman.

Senator PROXMIRE. Would you introduce the distinguished people with you?

INTRODUCTION OF ASSOCIATES

Mrs. KNAUER. Yes; if I may. To my left is Frank Marvin, who is the Director of our Management Staff; and to my right is Patricia Faley, who is Director of the Division of Organizational Liaison and the Chairman of National Consumer Week. Mr. Waverly Land is sitting in for Shirley Carozza, who is usually with us, but she had a family emergency. Mr. Land is from the Office of the Secretary, Budget Services Division at HHS.

SUMMARY OF ACTIVITIES

Mr. Chairman, we do appreciate this opportunity to justify our 1989 budget and to again request the support of the committee in providing the resources needed for the Office of Consumer Affairs. The $1,708,000 and the staff of 22 persons for 1989 would maintain OCA activities at the 1987 and 1988 level. The additional $38,000 for 1989 covers only inflation-related increases.

I would like to take just a few moments to mention our most significant achievements as they relate to our 1989 program.

ADVERTISING FRAUD

Advertising fraud was the subject of a major Office initiative in 1987 because consumers who suffer significant personal losses may be initially deceived by misleading ads in newspapers and magazines. But, promoters who bilk unsuspecting consumers often bilk the printer too, by failing to pay the bill for ads.

Our aim was to build on mutual interests of consumers and the advertising media by the use of an OCA advertising fraud manual which provides key indicators to help publishers screen out the more common frauds before ads are set in print. This is a copy of that document. It identifies the most frequent areas of consumer fraud and typical suspicious claims.

The manual was released in January at an OCA-fostered conference on advertising fraud here in Washington, sponsored by the Credit Bureau of the American Newspaper Publishers Association.

The response was impressive. The manual is now being made available by ANPA to its 1,400 members. A followup conference for the west coast is planned for later in calendar year 1988 and the Credit Bureau plans to enhance its computerized newspaper clearinghouse by incorporating data from state and local consumer offices. In 1989, we will publicize the most exemplary advertising acceptance practices of the media.

VIDEO SHOPPING SYSTEM

Looking at the emerging multibillion dollar video shopping system is another major OCA initiative that also offers significant potential for cooperative voluntary action between business and consumer groups. Some individual TV sales programs reach 17 million viewers. Many are low-income and elderly persons who are especially vulnerable to sophisticated and potentially misleading sales techniques.

There isn't much information on the impact of this new, rapidly growing industry. But, an increasing number of complaints led us to bring together industry, government, and associations representatives to consider such issues as complaint volume, order fulfillment policy, and price comparisons.

In 1988 we will continue our research of video shopping, and in 1989 we will develop an education program to encourage individuals to learn more about the rights and responsibilities of using this new method of purchasing.

INFORMATION AND EDUCATION PROGRAMS

We are quite pleased with our October edition of our Consumer's Resource Handbook. Here is a copy. Each time a handbook is used to avoid a problem or misdirected complaint correspondence, we all save money. As many as 20 other federal agencies will be asked to join in publishing a fifth edition of the handbook in 1989. We also produced "A Suggested Teacher's Guide to the Consumer's Resource Handbook."

It is being distributed so teachers may use the Consumer's Resource Handbook in a classroom environment.

National Consumers Week, 1987, was another success. Our campaign reached 100 million persons through over 500 national and local events. In large measure, the success in reaching the public was due to individual firms. For example, 80,000 posters were donated by Sears Roebuck. A total of 200,000 flyers announcing the National Consumers Week were donated by the National Futures Association, and 20,000 copies of "How To Run a Consumers Week" were donated by Seven-Up last year and by General Motors this year. These donations provided by the private sector cost them about $50,000.

The North American Network's Specialty Radio Series about National Consumers Week was aired by 350 radio stations at a cost to the sponsors, not the federal government, of $119,000. It was also made available to 450 stations of the National Public Radio System Network. In National Consumers Week, 1988 and 1989, we expect to exceed the number of consumers reached last year.

Last year, we mentioned the Time magazine cover article, "Pul-eeze! Will Somebody Help Me?" reporting on frustrated American consumers who wonder where the service went. Well, the issue of service has become the theme of this year's National Consumers Week 1988—"Consumers Buy Service."

This is our poster from Sears. Our message is that consumers appreciate good service and that business profits by paying attention to service. May I point out that Sears just gets a little credit line. They are very happy to provide the posters.

CONSUMER COMPLAINTS

An OCA report on the benefits to business from improving complaint handling led to a Chevrolet publication titled, "Increasing Customer Satisfaction." They produced the publication for us. It is now the centerpiece of a series of briefings of high-level corporate executives, the first of which was held last year in Philadelphia at the Wharton School of Business. In 1989, we will support briefings of senior corporate executives in as many as five other cities. This is to encourage aggressive, proactive consumer complaint-handling.

CONSTITUENT RESOURCE EXPOSITION

In 1989, the OCA staff will coordinate a fifth Biennial Constituent Resource Exposition on Capitol Hill. As in 1987, we expect to bring together 1,000 congressional caseworkers and representatives from 40 or more federal agencies to discuss ways of expediting answers to constituent inquiries. No one individual federal agency has the predominant interest to undertake this effort, but we all share in the benefits of improvements and replies to public inquiries.

In summary, Mr. Chairman, I am pleased with our past achievements and believe the budget proposed for fiscal 1989 will enable the staff of the Office of Consumer Affairs to continue to provide balanced and cost-effective programs for American consumers.

[The statement follows:]

STATEMENT OF VIRGINIA H. KNAUER, SPECIAL ADVISER TO THE PRESIDENT FOR CONSUMER AFFAIRS

Mr. Chairman and members of the Committee, it is indeed a pleasure to appear before the Committee as it considers the Office of Consumer Affairs' [OCA] budget for Fiscal Year 1989. We do appreciate this opportunity and the past support of the Committee in providing the resources needed for OCA to foster activities that recognize the interests, role and responsibilities of consumers in our free competitive enterprise system.

The $1,708,000 and staff of 22 persons requested for FY 1989 would maintain OCA staffing and program activities at the 1987 and 1988 level of operation. The additional $38,000 requested in 1989 covers only pay raise and other inflation related increases.

We believe that the merits of our 1989 request should be considered in the context of our recent success in meeting the five program objectives laid out on page 3 of our 19 page "Estimate of Appropriations." I would like to take just a few minutes to mention our most significant achievements in meeting these objectives and the related initiatives we propose in 1989.

A high priority of the Office of Consumer Affairs consistently has been to encourage cooperative voluntary measures by business and constituent groups to solve common problems in lieu of governmental action.

FRAUDULENT ADVERTISING

For example, fraudulent advertising was the focus of a major office initiative in 1987. Consumers are bilked out of millions of dollars each year and only a small percentage of that money is ever recovered. Many persons who suffer such losses are initially deceived by misleading ads in newspapers and magazines. But promoters who seek to bilk unsuspecting consumers often bilk the newspapers and magazines as well when they fail to pay the bill for advertisements.

OCA has been building on the mutual interests of consumers and the advertising media by encouraging industry to "screen out" clearly fraudulent ads before they appear in print. OCA prepared an advertising fraud manual for publishers which includes key indicators to help identify the more common frauds in specific industries. The manual lists hundreds of individuals and organizations in the private sector that can help publishers make sound advertising acceptance decisions. Appropriate governmental regulatory offices are also identified.

The manual was released on January 14, 1988 at an OCA fostered conference on advertising fraud sponsored by the Credit Bureau of the American Newspaper Publishers Association. The response was impressive. The manual is now being sent by ANPA to each of its 1,400 members; a follow up conference on the West Coast is planned for later in calendar year 1988; and, plans are being developed to enhance an existing Credit Bureau computerized clearinghouse, which provides information on newspaper advertisers, by incorporating data from state and local consumer offices.

VIDEO SHOPPING SYSTEM

Recently we began to concentrate on another issue which also appears to offer significant potential for cooperative voluntary action between business and consumer groups—the multibillion dollar video shopping system. Some individual TV sales programs reach 17 million viewers. Many are low income and elderly persons who are especially vulnerable to sophisticated and potentially confusing or misleading sales techniques. Comprehensive information on the impact of this new and burgeoning industry is non-existent, but a growing number of complaints to individual consumer groups and industry suggested the need to more precisely define the extent of citizen concerns. To meet that need OCA brought together industry, governmental and trade association representatives to consider such issues as complaint volume, order fulfillment policy, price differences between items shown and their retail counterpart, rights of consumers, etc. Recent data from national and local consumer organizations confirms that problems are not isolated. In 1988 we will continue our research of video shopping and in 1989 we will develop an appropriate consumer education program aimed at improving consumer knowledge about the rights and responsibilities of individuals using this new method of purchasing.

CONSUMER'S RESOURCE HANDBOOK

With regard to our consumer information and education programs, we were quite pleased with our fourth edition of our Consumer's Resource Handbook which was released in October 1987. The improved index, more detailed tips on how to avoid consumer problems, and the listing of some 2,000 government and business contacts makes this an ideal tool for professionals and individual consumers. Each time a Handbook is used to avert a problem, or to avoid misdirected complaint correspondence, we all save money. I must say it was hard to improve on previous versions that have received wide acclamation, including the prestigious "Blue Pencil" award of the National Association of Government Communicators. But I think we did it. As many as 20 other Federal agencies will again be asked to join in publishing a fifth edition of the Consumer's Resource Handbook during 1989.

National Consumers Week 1987 was another success. Our April 1987 campaign reached 100 million persons through 500 national and local events. Our cost was less than 2 staff years of effort and $33,000. In National Consumers Week 1988 and 1989 we expect to exceed the numbers of consumers reached last year. In large measure, our success in reaching the public is due to privately funded information and education programs and materials, such as distribution of 80,000 posters printed by Sears Roebuck, 200,000 flyers provided by the National Futures Association, and 20,000 copies of "How To Run a Consumer Week," printed by General Motors. The North American Network recognizes the event through a National Consumers Week Specialty Radio Series. In 1987 this series, sponsored by 29 companies, was aired by 350 commercial radio stations. It was also beamed by satellite to 450 additional radio stations on the National Public Radio network. (A conservative estimate is that 9 million persons were reached through these radio messages—at a cost to the sponsors—not the Federal Government—of $119,000.)

ISSUE OF SERVICE

As you may recall, in last year's budget hearing we brought to your attention the February 2, 1987 cover article from Time magazine—"Pul-eeze! Will Somebody Help Me?" It is the story of frustrated American consumers who wonder where the service went. Well the issue of service has become the focus and the theme of National Consumer's Week 1988—"Consumers Buy Service." Our message is that consumers appreciate good service and that business profits by paying attention to service. Whether the transaction involves goods, services, or both, the quality of customer service is a crucial ingredient in the interaction between customer and business before, during and after the sale. In fact, customer service is emerging as a key competitive advantage today, not only in the domestic marketplace, but also in the expanding international arena.

The concept of "bottom line benefits" to business in improving customer service was incorporated in an OCA summary report "Increasing Customer Satisfaction" which was printed by Chevrolet and released during National Consumer's Week 1987. This publication is the centerpiece of a series of briefings of high level corporate executives, the first of which was held last year at the Wharton School of Business. Among our high priorities for 1989 will be continuing emphasis on resolving common marketplace problems through voluntary efforts by business and consumer groups. We will expand our series of briefings to reach additional senior corporate executives to reinforce the message that there is a substantial competitive advantage in retaining customers through prompt resolution of complaints and by using the information to prevent future problems from occurring. Information on initiatives that are central to improving customer satisfaction also will be distributed in presentations and articles to industries and trade associations to help eliminate the root cause of complaints.

INFORMATION PROGRAMS

Our actions to improve the cost effectiveness of our information programs is bearing fruit. Analysis of final data indicates that our 1986 Christmas holiday TV news release beamed via satellite to 800 local stations reached between 50 and 60 million viewers with tips on how to protect themselves in retail marketplace transactions. A second TV news release on National Consumer's Week 1987 may have reached as many as 82 million viewers. The cost of each release was about $6,000. Staff effort totaled one-quarter FTE.

The video news releases are an excellent adjunct to: our monthly newsletter "Consumer News," which is distributed to 7,000 decisionmakers; to the 39 speeches made last year to groups, and to the 71 interviews with print and broadcast media.

OCA's comprehensive information program in 1987 included a joint effort of OCA, the Federal Trade Commission, The Office of the Special Trade Representative and the Council of Economic Advisers to develop a publication, "Trade, Trade-Offs, and Consumers." This brochure is intended to give individuals a better understanding of the consumers stake in world trade.

In 1989, in cooperation with the American Association of Community and Junior Colleges and others, we will encourage development of a pilot television course on consumer education and we will identify successful consumer education programs for special audiences such as the handicapped, immigrants, and potential school "drop-outs." To the extent private funds are available, we will continue working with the American Newspaper Publishers Foundation to develop and distribute education materials through the nation-wide "Newspaper in Education" program.

As part of our Consumer Affairs Council program for 1989, the OCA staff will coordinate a fifth biennial constituent Resource Exposition. As in 1987, we expect to bring together 1,000 congressional case workers and representatives from 40 or more Federal agencies to discuss ways of expediting answers to constituent inquiries. Our popular "Congressional Liaison Handbook" will be updated and distributed. No one individual Federal agency has the predominant interest to undertake this effort, but all share in the benefits of expediting replies to public inquiries. By the way, the cost to OCA will be about $8,000 and one-tenth FTE.

The Council will continue to focus on cross-cutting issues and initiatives, and to sponsor training programs to improve the skills of Federal consumer affairs personnel, such as the two day workshop for Federal complaint managers held last spring.

In summary Mr. Chairman, I believe the budget proposed for Fiscal 1989 will enable the staff of the Office of Consumer Affairs to continue to provide balanced and cost effective programs for American consumers.

CONTACTS WITH CONSUMER ORGANIZATIONS

Senator PROXMIRE. Thank you very much, Mrs. Knauer.

Mrs. Knauer, you make a very fine presentation and an impressive presentation. But I wonder if your organization works with some of the more vigorous and aggressive consumer activists. You cite Sears and Chevrolet. General Motors and Sears are two splendid organizations, and they certainly serve the American public with great successes, and we admire them. However, I have a feeling that they don't always represent the interest of the consumer. Sometimes the interest of the consumer and the producer conflict.

Do you consult with people like Ralph Nader or Ester Peterson, two people I greatly admire and who I think have worked very hard to criticize constructively the self-serving position taken so often by business?

Mrs. KNAUER. I agree that in the recent past some firms did a lot of self-serving things, but many are willing to join with us in constructive programs of benefit to consumers.

Senator PROXMIRE. Fine; I don't criticize that.

Mrs. KNAUER. Chevrolet recognized the benefit of improved complaint handling and their printing "Increasing Customer Satisfaction" is helping OCA reach other firms. We think this is one. The Consumer's Resource Handbook lists addresses of business and government offices and gives references on how consumers can solve complaints. But getting complaints satisfactorily answered, of course, wouldn't be possible unless businesses were not installing sophisticated computerized centers and taking other measures to resolve the consumer's complaints.

But we do work with many groups in the private sector.

Senator PROXMIRE. Do you work with or have you had any consultations with Ester Peterson?

Mrs. KNAUER. Ester is a friend.

Senator PROXMIRE. I know she is. She has been so active, and she is so positive and effective, it seems to me, in her advocacy.

Mrs. KNAUER. At the moment, she is less interested in the domestic scene and has been concentrating a lot of her activity at the U.N. She is the official representative for certain international nongovernment organizations.

Senator PROXMIRE. She has been doing a great deal of that, but I think she would tell you; I talk to her often, and I think she would tell you that she is very anxious to help. I think she would be flattered if you called her and consulted with her, asked her for her criticism.

Mrs. KNAUER. I have talked with her. We also work with a great many large organizations such as the Federation of Women's Clubs, with their 6,000 members and, of course, we work closely with the American Association of Retired Persons with its 26 million members.

Senator PROXMIRE. How about Ralph Nader?

Mrs. KNAUER. No. Actually, we don't have much to do with Ralph.

Senator PROXMIRE. Why not?

Mrs. KNAUER. I think he sees things slightly differently.

Senator PROXMIRE. Isn't that good?

Mrs. KNAUER. Yes; I think it is very helpful.

Senator PROXMIRE. I would love to see a discussion, and your agency could be soliciting him for his criticism. You don't have to accept it, but I think it would be a good twist. I think it would be good for you and good for him and good for the country, good for the consumers.

Mrs. KNAUER. That is a suggestion. We will see if we can.

Senator PROXMIRE. It wouldn't cost anything. I won't advise him sending you a bill.

Mrs. KNAUER. Oh, yes, and of course we do work closely with Steve Brobeck, the executive director of the Consumer Federation of America.

Senator PROXMIRE. Fine organization.

Mrs. KNAUER. He has worked with us on consumer problems caused by changes in the financial services industry. I reported on that issue in other years. Because of banking deregulation, consumers were confused, and to help we had two national financial service conferences. CFA was a participating organization in the second conference. Steve took a very active role. He was one of our speakers and he continued as a member of a follow-on working group. We in OCA bring groups like CFA together to address issues, and then we go on to something else, because we couldn't continue to maintain a presence in all issues. Fortunately, CFA took over the whole concept of teaching consumers about banking and other financial services.

OMB REQUEST

Senator PROXMIRE. What was your original request to OMB and what changes were made in your budget? You got a 2-percent increase. It is a very modest level, as I indicated, in view of the fact that you are the prime representative of the federal government of 240 million American consumers.

Mr. MARVIN. Our request was based on a 1988 current services level budget. So to the 1988 level of $1,670,000 we added 2 percent for inflation-related increases.

Senator PROXMIRE. So they gave you what you requested?

Mr. MARVIN. Yes, sir.

Senator PROXMIRE. There was no cut?

Mr. MARVIN. No, sir; there was no cut.

UNOBLIGATED BALANCE

Senator PROXMIRE. In fiscal 1987, Congress appropriated $1.768 million, but OCA spent only $1,703,000. I think it is admirable that you were able to save $65,000. Can you tell us how you did it?

Mrs. KNAUER. One of our senior staff resigned July 1, and then we had the loss of another senior person by death. We did not fill those positions, because at that time, there was uncertainty about our fiscal year 1988 appropriations and we thought it was safer not to add personnel to the staff.

Senator PROXMIRE. I have no other questions, but at this point, I will yield to the distinguished senior Senator from Iowa, Senator Grassley.

STAFFING TREND

Senator GRASSLEY. Your staff of 22 people now, how does that compare to 1981 at the beginning of the Reagan administration?

Mrs. KNAUER. There were about 50 at that time.

Senator GRASSLEY. Obviously, with 22 people, you don't do as much as with 50 people; at least I wouldn't expect you to. But let me ask you, if you could generalize in some way for us, as you see your total job that has to be done, how much less are you able to do now than you were in 1981? Or how do you see you accomplishing the goals with 22 versus what you would be doing if you had more people?

Mrs. KNAUER. Our full-time-equivalent employment has been cut from 29 to 22 in the last several years. We have added computers in the Office, so we needed fewer lower graded personnel.

Senator PROXMIRE. Mrs. Knauer, could I just interrupt for a minute?

Mrs. KNAUER. Yes.

Senator PROXMIRE. There is a vote now. I am going to run up and vote and come back. That will give Chuck an opportunity to proceed with his questioning and then go on up before the vote is over with. It just started. I will be right back.

Senator GRASSLEY [presiding]. All right.

Mrs. KNAUER. Yes. As I say we have made excellent use of computers but we have also reordered our priorities. We can't cover all issues. We have to concentrate our efforts. Mr. Marvin may have some specifics.

Mr. MARVIN. We have had to make some changes, but in doing so we followed a basic philosophy for involvement in issues. It is: How big is the issue to consumers? What other federal agencies are involved? What skills will be required for our staff to be an active participant? What is the likelihood we can fill the void and give a perspective that another agency isn't contributing?

So we tend to be a little more selective. We have fewer policy meetings than we had before, but we are concentrating on those issues where we can make a positive contribution. And, while we don't conduct major conferences any more, we are active participants.

We get things done with a lot less staff, and we will continue to do that. But, we do concentrate on those issues where we think we can get help from others, particularly the private sector, or other federal agencies, working through the Consumer Affairs Council.

We are making a very significant contribution to resolution of consumer issues but we, like other agencies, have had to reduce operating costs.

INDUSTRY PARTICIPATION

Senator GRASSLEY. Do you feel that you have been able to, through your encouragement, then, to get the private sector to fill some of this void, to get some of your messages out and to make an impression on people to be more conscious of consumer interests?

Mrs. KNAUER. Yes. As you know, I came to Washington with President Nixon in 1969, and I have seen gradual growth in the perception by the public that they are consumers, and they recognize their consumer rights.

Of course, we also advise consumers of their responsibilities to speak up and complain when there are marketplace problems. But unfortunately, no one had an interest in complaint handling. Back in 1974 we initiated the first landmark study of consumer complaint handling in America. When we updated the study in 1986 we found that as a result of our initial efforts complaint handling had significantly improved and we now have a lot more commitment by business leaders.

We have also been successful in the area of consumer fraud. As I said in my opening statement, the National Publishers Association has been working with us, because we found a mutual interest. The advertising media is losing money to scam artists who advertise, but it is fraudulent advertising, which hurts consumers.

I am interested in protecting disabled persons and, in fact, all consumers from misleading health claims, bogus investments; and other fraud. Many ads are blatantly fraudulent on their face, but yet they are published. We would like to see publishers exercise the same ethical standards in advertising departments as they do in their editorial boards.

We work with business and various consumer groups, because they have power to make changes. And we think that over a period of time that is the better course of action.

EXEMPLARY ACHIEVEMENTS

Senator GRASSLEY. I will have to go in just a minute. Could you cite just maybe one or two examples where maybe the intervention of your office with the private sector entity, the corporation or whatever, or individual maybe got that individual to do something that has contributed to consumer enlightenment that wouldn't have otherwise been done? In other words, directly as a result of your Office, just one or two examples.

Mrs. KNAUER. There are several cases.

Mr. MARVIN. This is a good example. "Increasing Customer Satisfaction" was printed for us by Chevrolet. This is the end product of probably about 12 years of work that started originally in our Office. The study we mentioned earlier was "Consumer Complaint Handling in America," done for us by TARP, Inc. We are, frankly, the consumer complaint-handling expert in the United States. We are the driving force. That is the cutting edge.

We conducted a 5-year study. No one had ever done that. We drew together a number of federal agencies to fund it so as to identify where the problems and complaints were. This publication shows how the private sector is picking up the recommendations from that particular initiative because it serves their customers and maximizes profits.

It is being used by us in a series of seminars, where we bring together groups of roughly 40 senior managers of corporations to show them how pro-active complaint handling systems are being utilized by leading national companies based on recommendations that we developed under Mrs. Knauer's stewardship in 1974. That is making a difference, because there are millions of complaints in which people want resolution or their dollars back. They want their problem solved, and it is the business sector that can do the problem solving.

Senator GRASSLEY. You would say in this instance, Chevrolet picked this up, and without your leadership, they would not have done that.

Mr. MARVIN. We would never have gotten to this point. General Motors has acknowledged, in a letter from then GM President F. James MacDonald, that our work was instrumental in focusing the company on consumer responsiveness as a major thrust to win back customers.

Mrs. KNAUER. Last Consumers Week, Chevrolet opened a multimillion dollar customer assistance center, and to help mark the opening they printed "Increasing Customer Satisfaction" for us. It is all our text, of course, and it shows that companies that do this proactive work, such as 800 numbers seeking consumer complaints realize anywhere from a 15- to 400-percent return on that investment. This is what clicks with businessmen. They think, "Ha, this is a good idea. If I haven't done it before, I should have."

Mr. MARVIN. It is a two-way street, sir. The Consumer's Resource Handbook tells the consumer to go to the business. "Increasing Customer Satisfaction" tells the businessman why it is profitable to care about consumers. Both thrust are driving forces of this Office.

Mrs. KNAUER. I have another example. We worked with Southwestern Bell——

Senator PROXMIRE. Senator Grassley has to vote.

Senator GRASSLEY. Go ahead, and I will read it in the record. Thank you.

Mrs. KNAUER. Thank you very much.

[The information follows:]

TELEMARKETING FRAUD

With our urging and our cooperation, Southwestern Bell produced a consumer information brochure on telemarketing fraud and offered it to all of their customers in a five-state area. The brochure is a consensus among many attorney general's offices, our office, and Southwestern Bell on how to deal with telephone solicitors. National Consumers Week 1987 was the impetus for the development of the information. Southwestern Bell has had so many requests for it since then that they are distributing it year round.

Senator PROXMIRE. Let me follow up on this a little bit. As I say, I think it is great that you are getting with Sears and Chevrolet to do this, but at the same time, you would understand that maybe because I am a Democrat, but I am an unusual—well, maybe not unusual—but I am a different kind of a Democrat than most.

I have great admiration, as I say, for American business, especially for these two highly successful businesses. But I would want another viewpoint. Do you submit this to critics? Now, after all, this comes from Chevrolet. Chevrolet doesn't want to accept it?

Mrs. KNAUER. It really comes from us. They only paid for the printing. This is ours.

Senator PROXMIRE. I know it, but the people who pay for it usually have some kind of influence over it; maybe not. I would love to get a criticism of this, not that I would accept the criticism. But I would like to get criticism from people who are more independent.

Mrs. KNAUER. Neither Chevrolet nor General Motors made or suggested any changes in our text. We have focus groups of people totally unrelated to us who look at a lot of our things and discuss them from the consumers perspective.

Senator PROXMIRE. Did they look at this?

Mrs. KNAUER. Oh, yes, they looked at the Consumer's Resource Handbook.

Senator PROXMIRE. Did "Increasing Customer Satisfaction" go to a focus group?

Mrs. **Knauer**. Originally developed from studies done for us and others, it is intended only for senior corporate management.

Senator **Proxmire**. Did a focus group handle it?

Mrs. **Knauer**. We had an indepedent consulting group, Technical Assistance Research Projects, Inc. They did the studies this was based on. They are totally unrelated to government, and on contract they did our original complaint study and our 1986 update which showed the government itself was doing better in complaint handling. Then they examined various businesses identifying a number of innovative leaders doing a good job, and several state, local, and voluntary agencies, too.

But they are totally independent of government, and of course, working with our staff, we think they did.

Mr. **Marvin**. They produced the studies on which the publication, "Increasing Customer Satisfaction" is based.

Mrs. **Knauer**. Yes.

Mr. **Marvin**. They produced the original complaint handling study and the updated study. "Increasing Customer Satisfaction" is really derived from the basic data that came from those independent studies, fleshed out with other TARP data.

Mrs. **Knauer**. Chevrolet didn't do it. They merely produced a nice glossy printed edition. Our original was a photocopied typescript.

Senator **Proxmire**. Can I hold on to these copies of the Consumer's Resource Handbook and "Increasing Customer Satisfaction"? I am going to have some people who are on the other side of the fence to tell me what they think about it, and I will tell you what they think.

Mrs. **Knauer**. Fine.

Mr. **Marvin**. That publication, "Increasing Customer Satisfaction," was the centerpiece of the first of our series of executive briefings held in Philadelphia at the Wharton School. There was a subsequent followup seminar sponsored by the Society of Consumer Affairs of Professionals in Business, and they conducted a training session for complaint managers. So all these things build on a pyramid; "Increasing Customer Satisfaction" is on one leg of that pyramid, the "Consumer's Resource Handbook" is on another leg, and executive briefings and training sessions are on a third leg.

We do get input on these, we get criticism, and we get other comments. We have also had a focus group on the Consumer's Resource Handbook.

Senator **Proxmire**. All that is fine. But It depends on who is the focus group, who are the critics, and so forth. As I say, I would like to get the most vigorous critics on the other side, too, so that we have a good, hard-hitting debate.

REALLOCATION OF RESOURCES

In last year's justifications, you estimated that your agency would spend $557,000 and, I think, eight full-time employees on increasing innovation, competition, and consumer choice in the marketplace in fiscal 1987.

I see in your fiscal 1989 justifications that you actually devoted only $415,000, and six full-time employees for this objective in fiscal 1987. Can you explain why you spent only 74 percent of your original estimates?

Mr. MARVIN. We had to devote more staff than we anticipated to development of our Consumer's Resource Handbook, which the Congress had identified as the highest priority for the Office. So we channeled additional staff effort into that area.

We had estimated that it would take about 3 person-years of OCA effort. It ended up taking 4.2, so we just had to reallocate our resources.

Senator PROXMIRE. I want to see if I understand what you are talking about. You increased your 1987 budget to help consumers function more effectively in the marketplace from last year's estimate of $718,000 and six full-time positions to $873,000 and 8.3 positions. That was an increase of $155,000. Is that where your money went?

Mr. MARVIN. In 1988 we will be building up, back, the resources in the program objective to increase competition.

Senator PROXMIRE. The innovation area.

Mr. MARVIN. That would then restore the program to the level that we had initially planned for in 1987. But, in 1989, the resources allocated for innovation/competition objective will decrease again, because we will be providing a lot of resources for the revision of the Consumer's Resource Handbook.

Senator PROXMIRE. My question is this: Can you tell us why you augmented this budget in 1987 to help consumers more effectively in the marketplace from last year's estimates? There is a sharp increase there and a sharp cut in the innovation and competition area.

Mr. MARVIN. In 1987, sir, we planned eight FTE's in increasing innovation; we only devoted six for that.

Senator PROXMIRE. That is right.

Mr. MARVIN. The change was because we had to channel extra resources to the Consumer's Resource Handbook revision. In 1988, we are going back to the eight level of people for innovation.

Senator PROXMIRE. I am talking about something else. I will repeat it again. You increased your 1987 budget to help consumers function more effectively in the marketplace and that was from last year's estimates of $718,000 and 6 positions to $873,000 and 8.3 positions. That was an increase of $155,000 and that is for 1987. I want to know the answer for 1987. Why did you increase that much? Do you follow me?

Mrs. KNAUER. We were revising the Consumer's Resource Handbook.

Mr. VAN DER VOORT. Is that the area it covers?

Mr. MARVIN. Yes.

Senator PROXMIRE. All right; that answers the question.

Mrs. KNAUER. It is the Consumer's Resource Handbook that helps citizens in the marketplace.

CONSUMER'S RESOURCE HANDBOOK

Senator PROXMIRE. In fiscal 1987, the fourth edition of the Consumer's Resource Handbook was completed. OCA required $65,000 and 4.2 full-time employees for printing and miscellaneous expenses. You are budgeting $10,000 for a revision to the handbook in fiscal 1989. Can you tell us how you were able to reduce expenses for the fifth edition from $65,000 to $10,000?

Mrs. KNAUER. The $10,000 is just for typesetting at GPO and printing a few thousand copies. The total OCA effort is more.

Senator PROXMIRE. Oh, it is more; I see.

Mr. MARVIN. We will be asking other federal agencies to cover some of the OCA reduction. In prior years, our commitment has varied depending upon the amount of OCA funds we were able to contribute for typesetting and printing.

We do, of course, also cover all of our own staff costs, but last year, in developing the fourth edition, we spent $65,000 for typesetting, printing, and for other related costs.

Senator PROXMIRE. That was the fourth edition.

Mr. MARVIN. Yes, sir.

Senator PROXMIRE. That was in October 1987. Can you tell us how many copies of that fourth edition were disseminated?

Mrs. KNAUER. The number printed was 1,700,000.

Mr. MARVIN. We are maybe a third of the way through our 2-year program for distribution of copies and we are right on schedule.

Senator PROXMIRE. A third of the way through. Does that mean, if you say 1,700,000 were printed; how many have you distributed?

Mr. MARVIN. About one-third. Some of our copies go directly to federal agencies that participate, 20 agencies.

Mrs. KNAUER. Congress got a little under 150,000.

Senator PROXMIRE. When will you distribute the rest of them?

Mrs. KNAUER. We will distribute the balance in fiscal year 1988 and fiscal year 1989 from the CIC with the funds Congress provides OCA.

Senator PROXMIRE. Do you expect to be able to distribute all of them?

Mrs. KNAUER. Not only all of them. We just hope we don't have to do a reprint. It is popular.

Mr. MARVIN. If additional funds are needed we would work with the committee on next year's budget. But we had planned to distribute 1.1 million copies of the handbook through the Consumer Information Center over a 2-year period. We are right on schedule for this year's program to distribute 600,000 copies.

Senator PROXMIRE. When do you expect to release the fifth edition?

Mrs. KNAUER. That would be less than 2 years from now. We will be working on it in the summer of 1989.

Mr. MARVIN. We will start to revise the existing handbook in the spring of 1989. Our target is to have that document done when our current inventory is exhausted. That would be in the first quarter of fiscal year 1990.

NATIONAL CONSUMERS WEEK

Senator PROXMIRE. I am going to ask you a question which I think is one I can understand, because we are talking about money that is not astronomical. That is what I do with my Golden Fleece Award. I concentrate on areas that are relatively modest so we can all understand it.

I know that you project an increase in the cost of National Consumers Week educational materials from $8,000 in 1988, according to last year's justifications, to $15,000 in 1989. Those are small amounts, but can you tell us why these costs are going up so sharply?

Ms. FALEY. It is basically reproducing additional copies of documents, such as ideas to increase citizen participation in National Consumers Week.

Senator PROXMIRE. Why is that almost twice as high?

Ms. FALEY. We are more successful now in raising awareness of National Consumers Week than we have been in the past. We are getting hundreds of calls each week requesting materials for National Consumers Week 1988. It is a distribution that we try to handle from our Office if we can.

Mrs. KNAUER. Last year sponsors of 500 different events at the state and local level took the time to report back to us so we could include the information in our summary report to the President. As early as October 1987, we were being asked what our theme would be for National Consumers Week 1988.

Over 250 Governors and mayors issued individual proclamations to recognize the celebration of National Consumers Week in their jurisdiction.

CONSUMER INFORMATION CENTER

Senator PROXMIRE. The Consumer Information Center distributed 872,000 OCA publications during fiscal 1987 at a unit cost of 34 cents. You estimate that 834,000 publications will be distributed in fiscal 1989 at a unit cost of 36 cents. Why do you project a 4-percent reduction in publication distribution? Everything else is going so well, and this one is going down.

Mr. MARVIN. We are working within the available funds at the current services level. This is an area where we just have to tighten our belt to live within the $300,000 available. We can't distribute the same number of publications in 1989 as we did in 1988 because of the expected increase in unit cost. CIC carefully monitors the costs. The 36-cent level is a projected cost. We hope it will be lower. Our experience has been that if there is a way CIC can save money, they will.

EVALUATION TECHNIQUES

Senator PROXMIRE. Let me ask you, what objective measurements do you use in determining effectiveness of your consumer outreach and education activities, and what are these activities telling you about your products?

Mrs. KNAUER. We get feedback from a number of sources. We get reports from the contractors who air our OCA video news releases. Also, we get reports from local groups participating in National Consumers Week. Periodically we use a clipping service. We can't afford the service for the whole year, but we use it during National Consumers Week to see how widely it is being celebrated.

Of course, we get reports from the Consumer Information Center on the distribution of OCA publications.

CLIPPING SERVICE

Senator PROXMIRE. How much did you spend in fiscal year 1987 on the clipping service?

Mr. MARVIN. It was about $1,000, sir.

Senator PROXMIRE. It would be about that same amount that you plan to spend in 1988 and 1989?

Mrs. KNAUER. I would think something like that.

Mr. MARVIN. We might spend a little more if we monitor our news column. We might target the use of a clipping service for a specific period of time following the release of a news column, the new pilot program for a column aimed at small town weeklies. The clips would be used to monitor the impact of a particular news article.

Mrs. KNAUER. This is a new periodic column. I started a weekly column to small town papers during the Ford administration. Ester Peterson continued it. But we found later that it was not being picked up by many papers so in 1981, we dropped it. We have decided to now try something different on a pilot basis.

It will amount to about $5,000 for four to six releases to about 5,000 weekly newspapers. But it will have a livelier, peppier format using "Eubie Smart," the little cartoon character from our Consumer's Resource Handbook with all his tips. We think this will be eye catching and more people will use it.

Clippings will help us to see how widely the column is being used. But we also have many meetings where we get feedback. My Deputy and I had over 100 policy level meetings last year that were accompanied by maybe 600 staff level meetings with the various consumer groups such as women's groups and, of course, business groups. That provides an opportunity for interaction and we get a lot of feedback.

Reports from the press and the trade press publications also alert us to emerging issues. We think that is very good.

Senator PROXMIRE. Thank you very much, Mrs. Knauer. We very much appreciate your testimony.

SUBMITTED QUESTIONS

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR PROXMIRE

Providing Advice to Consumers

Question: In last year's justifications, Mrs. Knauer, you indicated that services would be curtailed as a result of the very lean budget you were requesting. You said that consumers would be sent copies of the "Consumer's Resource Handbook" as a guide to solving their problems rather than receiving specific advice. As you know, we restored the funds that were deleted from the President's 1988 request. Has this allowed your office to continue to provide specific advice to consumers?

Answer: Yes, we still receive complaints which, for the most part, are unusually complex or difficult to resolve. We review these and forward them to the most appropriate source for assistance or advise the consumer as to what action he or she may want to take.

National Consumers Week

Question: In fiscal year 1986, you spent $22,000 and 2 FTEs on National Consumers Week. As you indicate in your opening statement, in fiscal year 1987 the event required $33,000 and 2 FTEs.

How do you account for the $11,000?

Answer: In 1987 OCA devoted a video news release to National Consumers Week (NCW) promotion at a cost of $6,000. The remaining $5,000, a 22% increase over costs for NCW 1986, related primarily to printing NCW materials such as additional letters to get information to potential sponsors of NCW programs. NCW 1987 reached 100 million persons, a 33% increase in the 75 million persons reached during NCW 1986. Furthermore, 500 national events were sponsored during NCW 1987, a 25% increase in the 400 national events sponsored during NCW 1986.

Question: How much do you expect to spend on National Consumers Week in fiscal 1988 and 1989?

Answer: We expect costs for NCW to remain relatively stable at $35,000 in FY 1988 and $36,000 in FY 1989. The increases relate to inflation.

Other Services

Question: You are requesting $477,000 for "Other services" in Fiscal year 1989, a very slight decrease in your current "other services" budget of $479,000. However, your current budget for "other services" is 22% - $88,000 - above your final fiscal year 1987 request.

Can you tell us why the budget went up so rapidly between 1987 and 1988?

Answer: OCA will be required to contribute $85,000 in 1988,and $82,000 in 1989 to the HHS Working Capital Fund. This is a departmental account which covers common centralized functions such as personnel and accounting.

Question: I note that a substantial portion of your "other services" budget - $300,000 will reimburse the General Services Administration (GSA) for your share of publications distribution costs. Can you tell us how much you paid GSA for this purpose in fiscal 1987 and what those costs will be in fiscal 1988?

Answer: OCA cost for CIC distribution in 1987 totaled $296,500. We expect costs in 1988 and 1989 to remain stable at $300,000.

Direct Marketing

Question: In your justifications you state that direct marketing has been ranked as a major source of consumer complaints. In December 1987 OCA hosted a meeting of the Direct Marketing Association, the Federal Trade Commission and the Council of Better Business Bureaus to "more precisely define the situation." Can you tell us what resulted from this meeting?

Answer: At that meeting all participants agreed that there were at least ten issues we were concerned about, including: warranties of products sold; parts and service availability; shipping and handling costs; delivery times; substitution policies; companies going out of business; quality issues; return policies; pricing issues; and consumer redress.

Meeting participants also felt that we needed a further survey to determine the accuracy of our assessment. The Council of Better Business Bureaus agreed to conduct the survey of approximately 500 consumer offices and Better Business Bureaus throughout the nation. The subsequent results of this survey confirmed our list of concerns.

We are now in the process of working on a consumer education program which would inform consumers about the video shopping industry; would provide consumers with data on where and how to complain; and would overview the legal consumer protections currently available for consumers shopping by this method.

Speeches and Interviews

Question: In last year's hearing with the House, Mrs. Knauer,you stated, and I quote, "to be as effective as we can possibly be, we will have to get out and make even more speeches and more interviews to stimulate others." How does the volume of OCA speeches and interviews made in 1987 and 1988 compare to 1985 and 1986 and what plans do you have for 1989.

Answer: Because Congress has restored $551,000 and 7 FTE to our FY 1988 budget we were able to maintain our mix of information and education programs at the FY 1986 level. Also, we have been able to reach many more people by making more effective use of the media, such as by using video news releases, in place of increasing our number of speeches and interviews. Therefore, we intend to keep the number of speeches and interviews in 1988 and 1989 at the 1987 level.

The volume of speeches and interviews for FY 1985 through FY 1989 is as follows:

	Speeches & Interviews
FY 1985	230
FY 1986	110
FY 1987	110
FY 1988 (plan)	110
FY 1989 (plan)	110

GENERAL SERVICES ADMINISTRATION

CONSUMER INFORMATION CENTER

STATEMENT OF TERESA N. NASIF, DIRECTOR

ACCOMPANIED BY WILLIAM B. EARLY, JR., DEPUTY COMPTROLLER FOR BUDGET, GENERAL SERVICES ADMINISTRATION

BUDGET REQUEST

Senator PROXMIRE. Our next witness is Mrs. Teresa Nasif.

Mrs. Nasif, you are the Director, as I understand it, of the Consumer Information Center.

Mrs. NASIF. That is correct.

Senator PROXMIRE. Good to see you. CIC is requesting a fiscal year 1989 budget of $1,354,000, an increase of almost 6 percent over its current level. You may proceed with your statement with the understanding that your prepared testimony will be included in full in the record and you may summarize it.

OPENING STATEMENT

Mrs. NASIF. Mr. Chairman and members of the subcommittee, I appreciate the opportunity to be here today to discuss the fiscal year 1989 budget request for the Consumer Information Center.

Fiscal year 1987 represented a year of significant challenge for us. Our challenge was to maintain the same level of publications as distributed during fiscal year 1986, when we achieved a 31-percent increase in publications distributed to the public. I am pleased to report that we succeeded in maintaining a relatively stable distribution level of 9.6 million publications during fiscal year 1987 as compared to 9.9 million publications in fiscal year 1986.

Media and marketing initiatives played a crucial role in the CIC program success. Examples of these efforts in fiscal year 1987 include the following: First, CIC intensified its activities with the print and broadcast media to encourage greater promotion of federal consumer information. Through targeted briefings and use of news releases, scripts, print ads, and television public service advertising, our media program reached millions of consumers at minimal cost.

For example, television stations nationwide have donated free of charge to the government more than $6 million worth of air time to our 1987 public service announcements.

Second, CIC continues to carry out special marketing projects using monies from the CIC fund. Authorized in the legislation which established the fund, these projects require prior approval by the subcommittee.

One example is a repeat of a successful project with the Internal Revenue Service, whereby inserts promoting the Consumer Information Catalog are included with supplemental tax forms sent to citizens.

In fiscal year 1988, we are expanding this project to include distribution of 2 million inserts promoting the availability of the U.S. Office of Consumer Affairs Consumer's Resource Handbook.

LIAISON PROGRAM

These examples of promotional efforts would not be possible were it not for the success of our liaison program with federal agencies and the private sector. This front-end development work, which identifies and provides the publications that come into the CIC system, requires consistent innovation and energy.

Recently, we redesigned the operation of our liaison program to make it even more effective. Agency liaison officers now perform liaison duties almost exclusively, while other staff members carry out administrative, media and distribution duties. This refocusing of the liaison program will also enable CIC to work more intensively with private sector groups to encourage participation in the cooperative publishing program.

This program taps private sector funds to help federal agencies underwrite the cost of printing and distributing generic consumer information. By the end of fiscal year 1987, 30 cooperative publications had been developed as a result of the program.

Our most recent example is "Getting Started: Establishing Your Financial Independence," which was developed in cooperation with the American Express Co., the American Association of Retired Persons, the Federal Trade Commission, and the U.S. Department of Agriculture.

This publication advises consumers on how to achieve their economic goals as personal and family conditions change throughout life. This joint publication typifies CIC's cooperative publication program which has been significantly assisted by this committee's continuing support.

In conclusion, we hope that our record of accomplishments will lead the committee to favorably consider our request for $1,354,000, an increase of $75,000, which will enable us to maintain fiscal year 1988 program levels.

Our goal will continue to be maximizing our resources and striving for excellence in the quality of services provided to the American public.

I would be glad to answer any questions at this time.

[The statement follows:]

PREPARED STATEMENT OF TERESA N. NASIF, DIRECTOR, CONSUMER INFORMATION CENTER

Mr. Chairman and members of the Subcommittee, I appreciate the opportunity to be here today to discuss the fiscal year 1989 budget request for the Consumer Information Center [CIC].

The CIC provides Federal agencies with a cost-effective and time-proven method for reaching the public with important information covering a wide variety of topics. These topics range from health and safety to credit issues and Federal benefit programs. The CIC promotes awareness of this valuable information through the quarterly Consumer Information Catalog and various media services. CIC then coordinates distribution of Federal consumer publications from a centralized facility in Pueblo, Colorado.

FY 1987 represented a year of significant challenge for CIC to maintain the level of publication distribution experienced during FY 1986, when we achieved a 31 percent increase in the number of publications distributed to the public. I'm pleased to report that CIC succeeded in maintaining a relatively stable distribution level of 9.6 million publications during FY 1987 as compared to 9.9 million publications in FY 1986.

Media and marketing initiatives performed a crucial role in this CIC program success. Examples of these efforts in FY 1987 include the following:

1. CIC intensified its activities with the print and broadcast media to encourage greater promotion of Federal consumer information. Through targeted briefings and use of news releases, scripts, print ads, and television public service advertising, the CIC media program has reached millions of consumers at minimal cost. For example, television stations nationwide have donated free of charge to the government more than six million dollars' worth of air time to CIC's FY 1987 public service announcements.
2. CIC continued to carry out special marketing projects using monies from the CIC Fund. Authorized in the legislation which established the fund, these projects require prior approval by this Committee. One example is a repeat of a successful project with the Internal Revenue Service, whereby inserts promoting the Catalog are included with supplemental tax forms sent to citizens. In FY 1988, we are expanding this project to include distribution of two million inserts promoting the availability of the Consumer's Resource Handbook.

These promotional efforts would not be possible were it not for the success of our liaison program with Federal agencies and the private sector. The "front end" development work, which identifies and provides the publications that come into the CIC system, requires consistent innovation and energy. Recently, we redesigned the operation of our liaison program to make it even more effective. Agency liaison officers now perform liaison duties almost exclusively, while other staff members carry out administrative, media, and distribution duties.

This refocusing of the liaison program will also enable CIC to work more intensively with private sector groups to encourage participation in the cooperative publishing program. This program taps private sector funds to help Federal agencies underwrite the costs of printing and distributing generic consumer information. By the end of FY 1987, 30 cooperative publications had been developed as a result of the program. An example is Getting Started: Establishing Your Financial Independence which was developed in cooperation with the American Express Company, the American Association of Retired Persons, the Federal Trade Commission, and the U.S. Department of Agriculture. It advises consumers on how to achieve their economic goals as personal and family conditions change throughout life. This joint publication typifies CIC's cooperative publication program which has been significantly assisted by this Committee's continuing support.

In conclusion, we believe that our record of accomplishments indicates that the CIC is successfully meeting its mandate to serve the American public. I hope that the Committee will favorably consider our request for $1,354,000, representing an increase of $75,000 which will enable us to maintain FY 1988 program levels. Our goal will continue to be maximizing our resources and striving for excellence in the quality of services provided to consumers throughout the country.

I would be glad to answer any questions at this time.

COUNTERINTELLIGENCE CORPS

Senator PROXMIRE. I am startled when you refer to your organization as CIC.

Mrs. NASIF. Oh, really?

Senator PROXMIRE. I served in the Counter Intelligence Corps in World War II. [Laughter.]

And believe me, that was counterintelligence, against all intelligent activity. [Laughter.]

I am sure that is not true of your organization.

Mrs. NASIF. I hope not.

UNOBLIGATED BALANCE

Senator PROXMIRE. At the beginning of fiscal years 1986, 1987, and 1988, your organization has had an unobligated balance brought forward of $848,000, $793,000, and $934,000 respectively. In view of the size of your organization and the relatively modest amount that is requested, that is a very, very large unobligated balance, unspent balance, that is available to be spent. Does that suggest that we should cut your appropriations?

Mrs. NASIF. I think not. We have in front of us a wonderful opportunity to use some of the funds to undertake something that would really enable CIC to make a quantum leap forward. That does seem like a lot of money. However, by the end of fiscal year 1989, the amount will decrease to $689,000 since we draw money from the fund to offset administrative expenses and to help fund special marketing projects. My opinion would be to undertake some special marketing projects that could never be covered by our appropriations.

Senator PROXMIRE. Well, I appreciate that, and that is ingenious, but as you know, and this is a very, very small amount of money, but $1 million here and $1 million there, and you are talking about real money.

This is a time of fiscal stringency for us, where we have to economize wherever possible. You have a very important cause, and it would seem to me that you can certainly justify what you are requesting. At the same time, if the agency is not going to use the money that Congress makes available for all kinds of other areas, we need to look at that.

Mrs. NASIF. That money, for the most part, represents excess distribution funds provided by customer agencies. Only a small portion is unobligated prior-year appropriations. It is our understanding that congressional intent in establishing the fund was to provide an offset to CIC operating expenses and to provide flexibility, with committee approval, to undertake special projects requiring relatively small amounts of money. Since fiscal year 1984, we have used approximately $1,080,000 to offset administrative expenses and to fund special projects. We believe this use is in keeping with original congressional intent.

But that money has been building up slowly and now represents a sizeable amount. By the end of fiscal year 1989, it will be $689,000. The question is how to best use it, whether in lieu of a part of our appropriation or for a special marketing project.

Senator **Proxmire**. As I say, the most recent figure I have brought forward for 1988 is $934,000.

Mrs. **Nasif**. Yes; in 1988. However, we are planning to use $118,000 in fiscal year 1988 and $127,000 in fiscal year 1989 to offset our administrative expenses. So by the end of fiscal year 1989, it is projected that that figure would be $689,000.

TOLL-FREE TELEPHONE LINE

Senator **Proxmire**. Why shouldn't we cut it by $600,000, leaving you $90,000?

Mrs. **Nasif**. That money was made available to provide flexibility to the CIC program and to not only offset administrative expenses, but to enable us to take on special projects that we could never afford to do otherwise.

Rather than it being a substitute for the appropriation, we can use it to come up with some very worthwhile special projects that will put us in the 20th century. What I have in mind is to give our mail order operation an opportunity to be in the 20th century by looking into the feasibility of a toll-free line.

Senator **Proxmire**. The difficulty, of course, is that the Congress wouldn't have an opportunity to determine whether whatever you decided to spend it on was needed or not.

Mrs. **Nasif**. Mr. Chairman, I think that the committee was very wise when they established the CIC fund. It required that we obtain committee approval for any special projects that we undertake so that you do retain that oversight.

IMPACT OF BUDGET REDUCTIONS

Senator **Proxmire**. I would imagine that budget reductions are forcing many federal agencies to cut back on free and low-cost publications. Have you witnessed these sorts of cutbacks in the past year? If so, has this caused a decrease in demand for CIC publications?

Mrs. **Nasif**. This year, the number of publications that we are distributing through Pueblo remains at about 42 percent free, which means the rest are sales publications. We have been able to maintain that proportion at a stable level over the last 2 or 3 years.

But it does impact on the number of publications that people order. A typical free publication, for example, is requested 50,000 to 70,000 times over the course of a year, and a typical sales publication, if it is in the 50 cent group, might be ordered 15,000 times. If it is a GPO sales document priced at $2 or $2.50, it might only receive 5,000 requests.

So there definitely is a correlation between the free or sales status and the number of requests that we receive.

CONSUMER INFORMATION CATALOGS

Senator **Proxmire**. In last year's justification you projected that CIC would distribute 17 million Consumer Information Catalogs in fiscal year 1987. How many were actually distributed?

Mrs. NASIF. The number was 16.6 million.

Senator PROXMIRE. 16.6 million?

Mrs. NASIF. Yes.

Senator PROXMIRE. Pretty close. You are projecting a distribution of 15.5 million in fiscal year 1988, but you say, in 1987 it was 16.6 million. What accounts for the estimated decrease of more than 1 million copies?

Mrs. NASIF. It is basically the cut of $69,000 to our administrative expenses by the continuing resolution. We applied the cut to personnel benefits and also to a reduction in the number of catalogs printed. It cost us about $20,000 in fiscal year 1987 to print 1 million catalogs, so we are going to have to cut catalogs, probably, by about 1 million.

AIDS PUBLICATIONS

Senator PROXMIRE. One of the issues CIC focused on in fiscal year 1987 was AIDS, the acquired immune deficiency syndrome. Can you tell us how popular the three publications "AIDS," "When Someone Close Has AIDS," and "AIDS and the Education of Our Children" are?

Mrs. NASIF. They are popular. As a matter of fact, "AIDS and the Education of Our Children" received 500,000 requests so far this fiscal year.

Senator PROXMIRE. 500,000?

Mrs. NASIF. Yes.

Senator PROXMIRE. Is that a free publication?

Mrs. NASIF. It is a free publication, and the Department of Education decided to promote the Pueblo address to educators and different health groups across the country. We started to distribute it not only in response to single copy requests, but in response to requests for bulk quantities.

Senator PROXMIRE. Has that been increasing, the AIDS publication, the demand for that?

Mrs. NASIF. Yes; it has been. We were astounded by the demand, starting at the beginning of the fiscal year. When we received our shipment of 500,000 copies from the Department of Education, we were wondering how long it would take us to distribute it. It ended up that we had to ask them for a reprint and resupply. As far as the popularity of the other AIDS publication, "Tips on Avoiding AIDS" from the Food and Drug Administration, which appears in the spring catalog for the first time, an early sample indicates that it will be among the most requested publications. "When Someone Close Has Aids" will be listed for the first time in our summer catalog.

Senator PROXMIRE. Let me ask you, what efforts are you making to increase distribution of this publication?

Mrs. NASIF. We are meeting with the Centers for Disease Control because at the present time we don't have anything from CDC on the subject. We have publications from the Department of Education, the National Institute on Mental Health, and the Food and Drug Administration. So we have been talking to CDC, because we would like to acquire the Surgeon General's report or one of their other pieces for distribution.

For example, they have a publication, "What You Should Know About AIDS," and we have had meetings with them. We are sending a staff member down to Atlanta on Thursday, as a matter of fact, to meet with them.

Senator PROXMIRE. That is commendable. But what I asked about is what you are doing to increase the distribution; in other words, what you are doing to let people know this is available and that this can be helpful to preventing AIDS.

Mrs. NASIF. We have been promoting it through our media program, mainly through our information releases. We have, as a matter of fact——

Senator PROXMIRE. How extensive is that?

Mrs. NASIF. We have 6,000——

Senator PROXMIRE. How extensive?

Mrs. NASIF. It is 6,000 consumer reporters that have requested to be on the media list. We do have an example of that information with us in the hearing room. We could leave it here.

Mr. VAN DER VOORT. We would be glad to have that release.

Mrs. NASIF. I am advised that your staff member has the release.

PRESENTATIONS TO POTENTIAL SPONSORS

Senator PROXMIRE. In last year's hearing with the House, you indicated that one of the goals of your agency was to make eight presentations of potential corporate sponsors. Did you meet that goal, and what was the result?

Mrs. NASIF. We had some very good results. For example, we traveled to Boston to meet with Fidelity Fund, and they were interested in working on a piece on investing. "What is a Mutual Fund" is the name of the publication, and as a result of our meetings, we now have that in our system.

We have also traveled to Chicago to meet with a coin company, the Blanchard Co. As a result of those meetings, we have A Consumer's Guide to Coin Investing which warns people about the fraud that is prevalent in that particular field.

We also have two publications from the National Futures Association as a result of meetings with their top people at their Chicago headquarters: "Investor's Bill of Rights" and "Investment Swindles: How They Work and How To Avoid Them."

Senator PROXMIRE. What group did you meet with?

Mrs. NASIF. The National Futures Association.

Senator PROXMIRE. Commodities Future Trading Corp.? Headed by Wendy Graham now?

Mrs. NASIF. No, the NFA is a nonprofit private group. It is the trade association for futures traders and investment firms dealing in futures trading.

Senator **Proxmire.** My question was, did you meet your goal of eight presentations?

Mrs. **Nasif.** Yes; we did.

Senator **Proxmire.** You did. You have cited two of them. Would you give us the others for the record?

Mrs. **Nasif.** Certainly.

Senator **Proxmire.** I want to thank you very much. This is a fine presentation. It is good to have somebody who is saving money. [Laughter.]

We need that.

SUBMITTED QUESTIONS

[The following questions were not asked at the hearing but were submitted to the agency for response for the record:]

QUESTIONS SUBMITTED BY SENATOR PROXMIRE

CIC--SPECIAL MARKETING PROJECTS

Question: Ms. Nasif, you say in your opening statement that CIC undertook a project with the Internal Revenue Service whereby inserts promoting the Consumer Information Catalog are included with supplemental tax forms sent to citizens. How much was spent on this effort?

Answer: The CIC obligated $75,000 for this project in fiscal year 1987. This included $50,000 in special project funds to reimburse IRS for distribution services and $25,000 in appropriated funds to print the insert. Use of the IRS distribution system enables CIC to introduce our services to large numbers of consumers. As a result of the 1987 project, CIC distributed more than 460,000 publications.

Question: You plan to undertake this project again this year and are in fact expanding it. How much are you budgeting for it in the current fiscal year and how much do you plan to spend in 1989?

Answer: In fiscal year 1988 and fiscal year 1989, CIC is printing and distributing the same total amount of IRS inserts as in fiscal year 1987. However, in fiscal year 1988 there will be two versions: one promoting the Consumer Information Catalog and the other one promoting the U.S. Office of Consumer Affairs' Consumer's Resource Handbook.

The CIC has budgeted $77,000 for this project in fiscal year 1988 and plans to spend the same amount in fiscal year 1989. This includes $50,000 in special project funds to reimburse IRS for distribution services and $27,000 in appropriated funds to print the insert.

It is projected that as a result of the fiscal year 1988 IRS project, CIC will distribute 800,000 publications.

Question: You plan to spend $100,000 in fiscal 1989 for special projects to promote the Catalog. Please describe these special projects, other than the one we just discussed, and the associated costs of each.

Answer: Special marketing projects enable CIC to reach out to new audiences or to enhance the impact of its program in ways it could not afford to do within appropriated funds. During fiscal year 1989, we are planning the following projects with Committee approval: (1) $50,000 - Repeating the IRS project which was just discussed. (2) $15,000 for the Veterans Administration (VA) check insert project: In cooperation with the U.S. Treasury and the VA, CIC will develop an insert to be included with checks sent to VA benefits recipients. The flyer will promote several free publications and the Consumer Information Catalog. (3) $10,000 for Catalog inserts: CIC will print and distribute promotional inserts in outgoing orders processed at the Pueblo distribution facility. These inserts will highlight publications available from Pueblo. (4) $25,000 for yet-to-be identified projects.

USER FEES

Question: A $1.00 user fee is charged to consumers ordering more than one free publication from the Consumer Information Catalog. I see on page 17 of your justifications that user fee revenues totalled nearly $342,000 in fiscal year 1987. What user fee collections do you anticipate in fiscal years 1988 and 1989?

Answer: We currently project receipt of $350,000 in fee revenue during fiscal years 1988 and 1989.

Question: Why are user fees in fiscal 1989 not projected to increase?

Answer: User fee revenue is generated when consumers use the Consumer Information Catalog to order more than one free publication. The number of Catalogs which CIC will have available to distribute to the public will remain constant in fiscal 1988 and 1989. Therefore, CIC is projecting a stabilization of non-bulk distribution during fiscal year 1989 at the 9 million level. With the current and anticipated levels of user fee compliance and Catalog utilization, we believe that our projection of $350,000 is reasonable.

DISTRIBUTION OF PUBLICATIONS

Question: In fiscal year 1987 CIC distributed a total of 9.6 million publications, a decrease of 3.7% below the prior year. What accounts for that decrease?

Answer: During fiscal year 1986, the CIC saw an increase of 31% in the numbers of publications distributed as compared to fiscal year 1985. This increase was largely attributable to the success of three major publications that were available in large quantities and free to consumers: Consumer's Resource Handbook, Dietary Guidelines, and What Works: Research About Teaching and Learning.

As we noted in our hearings last year, CIC realized that it would be very difficult to repeat the kind of success we had seen in fiscal year 1986. However, we do think that fiscal year 1987 was a good year for CIC and that the decline in distribution does not indicate a reduction in the need for the services we provide the public. Our fiscal year 1987 publication distribution still represents a 24.3% increase over comparable distribution in fiscal year 1985.

Question: How many publications do you think you'll distribute in fiscal years 1988 and 1989?

Answer: CIC currently projects total publication distribution of 10,000,000 in fiscal years 1988 and 1989. This estimate includes 1,000,000 publications distributed in bulk quantities.

TRANSPORTATION OF THINGS

Question: You are requesting $42,000 for "Transportation of things", a 17% increase over the current estimate. Why do you need such a large increase?

Answer: This category covers the cost of transporting the Consumer Information Catalog from the printing contractor's plant to Washington, DC and also to Pueblo, Colorado for distribution. A number of variable factors influence these costs including the location of the contractor winning the annual Catalog printing award. Since these obligations totalled $39,080 in fiscal year 1987, it is possible that the fiscal year 1988 Catalog cutback will not produce the savings required to achieve the $36,000 estimated for fiscal year 1988. In that event, funds would have to be transferred from other objects during the current year, thereby reducing the amount of the projected increase in fiscal year 1989. Due to the uncertainty of the level of obligations required for this object, $42,000 represents a reasonable estimate for fiscal year 1989.

COMMUNICATION AND UTILITY SERVICES

Question: In fiscal year 1987 you spent $59,714 on communication and utility services. That figure jumped 10% in the current fiscal year estimate. How do you account for this increase?

Answer: These costs include charges for utilities such as postage and telephone services. They are determined by GSA by conducting agency-wide samplings at various times during the year and are assessed to individual program offices on a pro rata basis. During fiscal year 1986, the CIC obligations totaled $69,819, decreasing to $59,714 during fiscal year 1987, and increasing to an estimated $66,000 for the current year. Intercity telephone costs account for a major portion of the current year's estimated increase.

Obligations for intercity costs totalled $9,343 during fiscal year 1987 and, based on agency-wide sampling data, will increase an estimated $4,557 to $13,900 in fiscal year 1988. The remaining $1,729 of the current year's increase is the estimate of current year net changes for CIC in the cost of local telephone service, postage, freight service, and equipment rental.

SUPPLIES AND MATERIALS

Question: You are requesting $6,000 for supplies and materials in fiscal 1989, a 50% increase over the current level. Can you explain the need for this increase?

Answer: These costs include charges for (1) operating supplies ranging from paper clips to computer supplies and paper and (2) subscriptions to periodicals such as "Consumer Research" and "National Consumers League Bulletin". Although a relatively small part of the budget, these items play an important role in CIC's ability to work with Federal agencies in developing and making available relevant consumer publications to the public.

These obligations totalled $5,779 in fiscal year 1987 and, although originally programmed for $4,000 in the current year, will total approximately the same amount this year with a small increase to $6,000 in fiscal year 1989 to cover price rises. CIC plans to ask for the transfer of necessary funds in any reprogramming request submitted to the Committee for fiscal year 1988.

PRESENTATIONS TO CORPORATE SPONSORS

Question: Please cite the eight potential corporate sponsors that you made presentations to last year.

Answer: Examples of fiscal year 1987 presentations to potential corporate sponsors follow:

1. American Express Company in New York City on building financial security.

2. Fidelity Investments in Boston on mutual funds.

3. James U. Blanchard and Company in Chicago on investing in coins.

4. AT&T in Basking Ridge, New Jersey on a consumer's guide to long distance telephone service.

5. Gerber Products in Cincinnati on child safety.

6. National Futures Association in Chicago on investment fraud.

7. Goodyear Tire and Rubber Company in Cincinnati on buying and maintaining tires.

8. American Bar Association in Chicago on estate planning.

SUBCOMMITTEE RECESS

Senator PROXMIRE. The subcommittee will stand in recess until Monday, March 21, at 10 a.m., when we will take testimony from the National Science Foundation. The hearing will take place in SD–124.

[Whereupon, at 12:20 p.m. Tuesday, March 15, the subcommittee was recessed to reconvene at 10 a.m. Monday, March 21.]

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT-INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1989

MONDAY MARCH 21, 1988

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10 a.m. in room SD-124 Dirksen Senate Office Building, Hon. William Proxmire (chairman) presiding.

Present: Senators Proxmire, Grassley, and Nickles.

NATIONAL SCIENCE FOUNDATION

STATEMENT OF ERICH BLOCH, DIRECTOR

ACCOMPANIED BY:

- DR. MARY GOOD
- DR. JOHN MOORE, DEPUTY DIRECTOR
- MS. SANDRA TOYE, CONTROLLER
- DR. BASSAM Z. SHAKASHIRI, ASSISTANT DIRECTOR FOR SCIENCE AND ENGINEERING EDUCATION
- DR. DAVID KINGSBURY, ASSISTANT DIRECTOR FOR BIOLOGICAL, BEHAVIORAL AND SOCIAL SCIENCES
- DR. RICHARD NICHOLSON, ASSISTANT DIRECTOR FOR MATHEMATICAL AND PHYSICAL SCIENCES
- DR. CARL HALL, ACTING ASSISTANT DIRECTOR FOR ENGINEERING

PROPOSED BUDGETARY INCREASE

Senator PROXMIRE. The subcommittee will come to order. Today, we will hear from the Director of the National Science Foundation, Mr. Erich Bloch, who will discuss a proposed 20-percent increase in this year's National Science Foundation budget, including a new science and technology research center initiative that would make $150 million available for the funding of 15 research centers over a period of 4 or 5 years.

As you know, Mr. Bloch, I opened last year's hearing by saying that I couldn't think of anything that would be more difficult than to double anybody's, even your budget, over the period of 5 years that you are proposing, and, in fact, we were forced to limit the increase in the current year budget to about 5.5 percent in lieu of the 16-percent increase you initially requested.

I am afraid the news this year is no better and may well be worse. Frankly, we won't know until we receive our subcommittee's allocation under the Budget Act.

RESEARCH AND EDUCATION BASE

Before we start, let me make an observation. Mr. Bloch, you have done an excellent job of stressing the need for revitalizing the research and education base of the nation's colleges and universities, as well as strengthening the links between universities, industry, and the government in order to stimulate the productivity growth and improve our competitive posture with respect to the rest of the world.

This has been a major component of your rationale for asking for substantial increases in the NSF budget.

On the other hand, I am inclined to think that using federal research dollars to leverage any substantial improvement in our ability to compete technologically is a bit like pushing a string. Let me explain what I mean.

My colleague, Senator Garn, the distinguished ranking member of the subcommittee, often makes reference to the "bean counters" at the Office of Management and Budget. However, we also have a very large group of "bean counters" in the corporate world; managers who are interested in this year's bottom line and little else. They fear that investments in the development and application of new processes and products without an immediate payoff will make their firms more vulnerable to corporate takeovers. In fact, many corporations are taking liquid assets and using them to buy back their own stock as a means of protecting themselves against merger mania instead of investing those assets in research and development.

In too many cases these mergers are making money for Wall Street at the expense of Main Street. Undoubtedly, the federal government can stimulate a modest amount of activity in the private sector by pouring federal dollars into research and development.

CORPORATE RELUCTANCE

Until we solve the very basic problem of corporate reluctance to invest in the future, I am afraid that we are just nibbling at the edges of the technological competitiveness of this problem.

To put it another way, unless we can engage the tremendous power of the private sector, federal subsidies are going to produce very marginal improvements. Of course, I welcome any comments you might want to make as a result of these observations, and I look forward to your opening statement, which you may summarize with the understanding that it will be included in the hearing record in its entirety. Before you go ahead, I would like to ask my distinguished colleague, Senator Grassley, to make an opening statement.

Senator GRASSLEY. I don't have an opening statement, but I came because I know of the hard times that face your agency, and particularly, with some of the programs, I stand ready and willing to help however I can in order to bring about some improvement considering the tough economic times, fiscal times that we have here.

Senator PROXMIRE. Thank you.

SUMMARY OF STATEMENT

Mr. BLOCH. Thank you, Mr. Chairman, for your comments, and also Senator Grassley, for your very helpful comments.

I agree, Mr. Chairman, that no sector, by itself, can address the problems that this country is facing, but I think all sectors together must work on it. It is really up to the National Science Foundation to make sure that we have the underpinnings in place, which industry can use later on in the other sectors of the economy. The underpinnings that we are supplying are basic research and education.

I want to focus on both of these as I go through my abbreviated statement.

SCIENCE POLICY

Looking back over the past few years, we can be pleased at the way the debate over economic matters has come to focus more strongly on science and technology and on doing things for ourselves.

Increasingly, we understand that we must look to our own educational, research, industrial, and governmental institutions to make us competitive. No one will do it for us. This understanding is only a first step, but it is an important one.

I am not satisfied, however, and I doubt this committee will be satisfied, with the actual progress we have made in strengthening our educational and research systems. Although there is a growing consensus on the need, our fiscal problems have so far prevented us from taking the actions we must. I hope this can be the year when that changes decisively.

FOCUS ON ECONOMIC PROSPERITY

Science and technology are concerned mainly with two of our most important national goals: economic prosperity and national security. NSF focuses strongly on the former. We support science and engineering in ways that contribute directly and effectively to national economic competitiveness.

There are three important elements of science policy that are expressed in NSF programs: developing human resources, because people are our most important asset; support of university basic research, because universities are the main source of new knowledge and play a key role in education; and efforts to link the universities more tightly to industry in order to use our technical resources most effectively.

HUMAN RESOURCES

People must have the first priority. Trained and educated people are the major resource of any modern society.

We are all pleased with the resurgence of the education programs of the Foundation and the general focus of our programs on human resources and development.

I appreciate the critical role this committee and its counterpart in the House have played.

Appropriations for science and engineering education have risen from $16 million in 1983 to a requested $156 million in 1989, almost a 10-fold increase. This is the dramatic progress that we need.

Equally important, the numbers of scientists and engineers supported by NSF programs at all levels, from high school through senior scientists, are projected to rise sharply, and at the requested level for 1989, the increase over 1987 will be almost 30 percent.

Attached to the written testimony is figure 2 that makes this particular point.

The Foundation addresses human resources in all areas, from high school students all the way to senior scientists.

The positive trend of the budget, however, should not obscure the dismal state of science and mathematics education in our schools. Only 2 weeks ago, the Foundation announced the results of a new survey of international science student accomplishments, and once again, the United States did not place well.

Our 14-year-olds tied for next to last place, while Hungary and Japan took the top places.

With these concerns in mind, our proposed 1989 budget again makes human resource development a major theme. The Foundation's precollege programs are the largest piece of the effort in science education. They have grown rapidly and will rise again by nearly 21 percent in 1989 to a total of $108 million. Even at these levels, however, NSF's role is small in dollar terms. Our resources are used to stimulate others, to innovate, and to lead. The main effort must come from the states, which bear the principal responsibility for education under our system of government.

UNDERGRADUATE PROGRAMS

The second major part of the effort is our undergraduate programs. As programs deferred this year come on line in 1989, this level will show the biggest increase, rising 62 percent to $65 million in the proposed budget.

I want to emphasize that all parts of the Foundation bear responsibility for education. Most precollege and some advanced programs are in the science and engineering education directorate, but much of the effort at advanced levels is undertaken in the research directorates.

A pressing problem is to attract enough students to science and engineering. Almost no science is taught in elementary school and less than a quarter of high school graduates are qualified to do college-level science or engineering. In the long run, stronger precollege programs are a necessity.

Everyone who will complete a Ph.D. by the year 2000, however, is already in high school. Nothing we do in the precollege area will have any effect on these students, but efforts at the undergraduate level and above may stimulate many of them to choose science or engineering careers. Focusing on those students will help us to meet the needs of industry, government, and society at large that we expect to develop in the 1990's.

Figure 3, again, attached to the written statement, illustrates the science and engineering pipeline and the major dropout points that occur at the level of high school seniors, as well as at the undergraduate level in the colleges.

We need to focus on these students at three critical transition points: from high school to college, from college to graduate school, and at the master's degree level. At each of these points, a substantial proportion of the potential Ph.D.'s drop out of the process. At each of these points, the next stage must be made attractive enough to keep the best of the students involved.

A large part of any solution to the people problem must come from broader participation.

We have made some progress in encouraging women to join the science and engineering community, but we are far from where we should be, and there is some evidence that the participation rate is leveling off.

With minorities, however, we have had less success. In time, however, the new minority resource centers may have an important effect.

A good example of what can be done is a cooperative effort led by the University of South Carolina to train better science and mathematics teachers for the schools. The program involves significant numbers of minority teachers in summer workshops and other training activities. Importantly, this NSF project has stimulated major state and university support.

In addition to concern for people as individuals, we must be concerned with the institutions in which they work. This means that we must broaden participation beyond the institutions that already compete well. NSF has sought to do this through the EPSCoR program with encouraging results.

A point that is not well known is that NSF is especially important in the states that receive relatively little federal R&D support. We provide about 10 percent of the federal total going to the bottom 10 states, compared to less than 3 percent of the total for the top 10 states.

Our focus on both human resources and on broader participation in the research enterprise are not empty promises; they are being borne out by results and facts.

The second requirement for better economic performance is a stronger university basic research capability. I would hope that 1989 is the year in which progress in this area can match what we have recently accomplished in human resources.

UNIVERSITY BASIC RESEARCH

University basic research is more important today than ever before. The world is rapidly shifting to a knowledge-based economy, and in our system, new basic knowledge is produced mainly in universities.

In this area, the actions of this subcommittee are of overwhelming importance. In the physical sciences and engineering, as figure 4 attached to the written testimony shows, this subcommittee is the principal supporter of academic research, providing 74 percent of federal civilian support to universities in these fields. Eighty-one percent of the subcommittee's support is provided by NSF.

In contrast to the support for education, however, this support for research has not been rising in recent years, as you can see in figure 5. In constant dollars, the NSF "Research and related activities" appropriation for 1988 is almost exactly where it was in 1985.

Overall, federal investment in basic research and in civilian R&D has grown slowly and erratically in the past few years. By contrast, research investments by our major trading partners continue to advance strongly. We are not matching their effort in civilian R&D, as you can see by figure 6.

While we have increased our R&D support in defense, DOD support of universities has declined. This is not good for universities and it is not good for the military programs. They need basic research results and they depend on a steady flow of new scientists and engineers.

In nearly every field that NSF supports, the opportunities to make important advances have outrun the available support. That is certainly true in superconductivity. Chaos theory in mathematics and new discoveries in biology and biotechnology are recent fields of revolutionary progress. These fields are in a period of accelerating development. Major new industries, only dimly visible now will stem from today's basic research.

American manufacturing appears to be starting a comeback, as it must if we are to prosper. But manufacturing will change dramatically over the next decade as robotics, new materials, computer-aided manufacturing, and other new technologies emerge from basic research and from our universities.

The world is in an unprecedented period of technological development. We know that nothing like the present has been seen before and a reasonable guess is that the future will be even more intense and fast paced.

In this situation, any nation that wishes to lead, whether economically or militarily or politically, must lead in science and technology. This is impossible without rising levels of basic research support. Unless the United States is willing to cede its long position of world leadership in science and engineering to others, we must find the resources for the necessary investment.

LINKAGE BETWEEN UNIVERSITIES AND INDUSTRY

Linkages among the various sectors of our economy is the third element for an effective science and technology policy and the third theme of our proposed budget.

It is especially important in the United States, because our research system is built on the research university. This keeps research and education tied closely together. This is a major strength and one of the reasons why our universities are the best there are.

But in this, as elsewhere, there is no free lunch. The drawback of our system is a tendency for university research to be isolated from economic reality. We need explicit mechanisms to make sure this does not happen and that the results of our laboratories flow smoothly into industry.

NSF has been a leader in developing new ways to bring the various players in science and technology more closely together.

Our engineering research centers [ERC's], the first of which were established in 1985, have stimulated significant industrial and state support and brought new resources to the universities.

In fact, the federal dollar today is about matched with the state and industry dollar in this vital program.

Our budget for 1989 requests funding to extend the ERC concept to other areas in science, as the Chairman has already mentioned. We are proposing a new appropriation of $150 million, sufficient to fully fund, over 5 years, 12 to 15 science and technology centers [STC] for that length of time.

Our intention is to provide full funding up front to avoid committing the Foundation's future resources and to answer the concern of those who fear that the centers might displace traditional support mechanisms.

The Foundation's support for individuals will continue to be our primary concern, as it has been in the past. I would also note that many individual researchers work in centers or are seeking to establish centers. Among those who have center proposals in our current competition are 350 currently active NSF principal investigators.

The traditional organization of research in our universities into disciplinary departments has been tremendously productive. It is still the best single way to do science, but it is not the only way.

New ways must be tried. In some contexts, an interdisciplinary center tied closely to industry will be more effective. A responsible national science policy must balance these various approaches.

PRIORITIES

I would like to say something here, Mr. Chairman, about responsibilities and priorities. Within the Foundation, there is a constant need to make our programs fit the available resources. We cannot accomplish everything and we must constantly reassess existing projects in order to make resources available for new ones.

This is more difficult in a tight budget year, but it is also more necessary. We have made specific choices, such as terminating the Cajon Pass drilling project, to delay STC's from 1988 to 1989, and to undertake a review of the astronomy centers. Some of these priority choices produce a reaction in the community. It is not possible to make everyone happy, but that reaction is really an indication that we are making meaningful choices, not just increasing or decreasing everyone's grant by an equal percentage. That sort of mindless action would be easy, but it would not serve either the nation or the community well in the end.

The 1989 budget was developed with this need to keep priorities in mind. Our first priority is people, both in developing human resources and in research support. We stress the value of the individual investigator, but we also recognize the value of group efforts and centers.

The Congress has the same problem. We understand that there are needs other than science and that you must judge their relative merits. I would point out that nearly all federal missions depend on scientific and engineering expertise and will benefit from new knowledge and new technologies. This is especially true of the space station, the supercollider, and other major scientific initiatives.

NSF provides the base on which the success of these other programs will be built. Providing that base is what the Foundation is all about and what we are trying to accomplish.

That is why I strongly believe that our request needs and deserves your full support.

Thank you very much, Mr. Chairman.

[The statement follows:]

STATEMENT OF ERICH BLOCH

MR CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I am pleased to have this opportunity to discuss the Foundation's budget request for FY 1989. Education and basic research in science and engineering have a direct, long term relation to national economic well-being. Our budget request highlights The Foundation's potential to contribute to this relationship.

SCIENCE, TECHNOLOGY AND NATIONAL GOALS

I think we can be pleased that recent debates over economic matters have come to focus more strongly on science and technology. Increasingly we understand that we must look to our own educational, research, industrial, and governmental systems to make us competitive. This understanding is only a first step, but it is very important.

Although there is a growing consensus on the need for strengthening our educational and research systems, fiscal problems have so far prevented us from taking the action we would like. I hope this can be the year when that begins to change in a decisive way. It requires a long-term view, and a determination to identify and support national priorities in the difficult environment of fiscal constraint.

The Federal budget request for FY 1989 proposes to address urgent national priorities within the terms of the bipartisan budget agreement. In identifying high-priority areas that must be funded adequately, science and technology are singled out for their contributions to long-term improvement in national productivity and global competitiveness.

A nation that wishes to lead -- economically, militarily or politically -- must also lead in science and technology. Investments now provide the base for future strength. Increased support for basic research, particularly at universities, will help to generate the new knowledge necessary for continued innovation and will help to assure the future availability of high-quality scientists and engineers.

NSF BUDGET REQUEST

The FY 1989 budget request for the National Science Foundation is $2.1 billion, an increase of more than 19% over FY 1988. It includes a proposed new appropriation for Science and Technology Centers.

Table 1
NSF FY 1989 Request
(dollars in millions)

Research & Related Activities	$1603.0
Science & Technology Centers	150.0
U. S. Antarctic Program	141.0
Science & Engineering Education	156.0
Total	$2050.0

We believe that the request reflects the dynamic forces in today's research as well as the fundamental relationships which underpin the health and vitality of the science and engineering enterprise. It returns to a rate of growth which doubles the Foundation's budget over the next five years. This significant growth is a central feature of the Administration's commitment to science and technology.

The request is formulated around three strategic themes:

- Education and human resources -- because people are our most important asset;
- Disciplinary research and supporting facilities -- because universities are the primary source of new knowledge; and
- Research centers and groups -- because we must foster interdisciplinary investigation and build stronger links between universities and industries to use our technical resources most effectively.

We must be concerned with breadth, flexibility, and the changing nature of investigation. And we must extend our efforts to find and encourage all scientific and engineering talent.

PEOPLE: EDUCATION AND HUMAN RESOURCES

A basic tenet of our long-term view is that people must be our highest priority. Trained and educated people are the major resource of any modern society.

We have developed a broadly based approach for support of education and human resources; all parts of the Foundation are engaged in this effort. Most precollege and some advanced programs are in the Science and Engineering Education Directorate, while the research directorates support much of the effort at undergraduate and advanced levels.

Appropriations for Science and Engineering Education have risen from a low of $16 million in 1983 to a requested $156 million in 1989 -- almost a ten-fold increase. (Figure 1)

Even more important, the actual numbers of scientists and engineers supported -- at all levels from high school through senior scientists -- are rising sharply. Across the Foundation, the FY 1989 increase will support over 14,000 additional people-- a 30% increase over FY 1987. This is indeed a positive development. (Table 2, Figure 2)

Table 2
National Science Foundation
Support for Human Resources

	FY 1987 Actual	FY 1989 Estimate
Senior Scientists	15,800	18,900
Postdoctorals	3,400	3,800
Graduate Students	14,700	17,100
Undergraduates	6,400	9,300
Pre-college Teachers	7,200	9,500
High School Students	<100	3,000
Total Number Supported	47,600	61,600

The positive trend of the budget, however, should not obscure the dismal state of science and mathematics education in our schools. Only a few weeks ago the Foundation announced the results of a new survey of international science student accomplishments. Once again the United States did not place well. Our 14-year olds tied for next to last place, while Hungary and Japan took the top places.

With these concerns in mind, our request includes $265 million for education and human resources, up more than 20% over 1988. Activities are designed for all levels of education, academic career initiation, all types of institutions, and all regions of the country.

The Education Pipeline

The Foundation's precollege programs are the largest component of the education and human resources effort. Precollege support has grown rapidly, and will rise again by 20% in FY 1989 to a total of $108 million. On a national scale NSF's role at the beginning of the education pipeline is small in terms of dollars, because our resources are used to stimulate others, to innovate, to lead. The main effort must come from the States, which bear principal responsibility for education.

One mechanism for multiplying the impact of NSF investments is to promote linkages among all concerned sectors. Ongoing projects for materials development involve education developers, publishers and school systems. New projects are planned in FY 1988 and FY 1989 for partnerships between the private sector, local schools, colleges and universities. Over 35 States are represented in proposals currently under review to develop model cooperative precollege education efforts on a local or regional scale.

Undergraduate programs are another area of major emphasis. The Foundation has developed a comprehensive range of programs to address critical needs identified by the National Science Board and other groups. As activities deferred from FY 1988 are initiated or expanded in FY 1989, support will rise to $65 million -- a 62% increase -- for activities for students, faculty, curriculum, instrumentation and laboratory development, and underrepresented groups.

Recruitment and retention of scientists and engineers is a pressing problem. Almost no science is taught in elementary school, and less than a quarter of high school graduates are qualified to do college-level science or engineering. For every 10,000 high school sophomores, only 20 eventually earn doctorates in natural science or engineering. This is not enough to meet the needs of industry, government, and society as a whole.

In the long run, we hope that efforts at the precollege level will yield greater participation in science and engineering. But we must recognize a more short-term fact: new PhDs for year 2000 are entering college now. We must have strong efforts focussed at the undergraduate level and above. (Figure 3)

Broadened Participation

A large part of any solution to the shortage of human resources must come from broader participation. The Foundation's investments to broaden participation total almost $49 million in the FY 1989 request, and increase of nearly 30% over FY 1988.

We have made good progress in encouraging women to join the science and engineering community, although we are far from where we should be. We should also be concerned about evidence that the participation rate is leveling off.

With minorities our programs have not shown the desired change. We have instituted new activities for minority research and resource centers and for minority students which may have an important effect. We are making special efforts in both education and research programs to address this issue.

A good example is the South Carolina Cooperative Plan for Professional Development of Science and Mathematics Teachers in Grades 7 - 12. Significant numbers of minority teachers are involved in summer workshops, through a consortium of five universities and colleges. Other institutions in the region are beginning to replicate the activity. State and university resources have been committed to the project.

People work and develop in institutions, which means that we must be sensitive to the need to broaden participation beyond the institutions that already compete well. NSF has sought to do this especially through the Experimental Program to Stimulate Competitive Research (EPSCoR) program, with encouraging results in thirteen States and territories.

A point that is not well known is that NSF is especially important in the States that receive relatively little Federal R&D support. We provide about 10% of Federal R&D funds going to the bottom 10 states, compared to less than 3% of the total for the top 10 states.

UNIVERSITIES: DISCIPLINARY RESEARCH AND FACILITIES

The second requirement for better economic performance is a stronger university basic research capability. I would hope that 1989 is the year we can move forward in this area.

The Foundation continues to make its largest investments in this area. The FY 1989 request includes more than $1.2 billion for disciplinary research and research facilities, an increase of 8% over FY 1988.

University basic research is more important today than ever before. The world is rapidly shifting to a knowledge-based economy. In our system basic knowledge is produced mainly in universities.

The actions of this subcommittee are of overwhelming importance in this area. In the physical sciences and engineering this subcommittee is the principal supporter of academic basic research, providing 74% of Federal civilian support to universities in these fields. Eighty-one percent of the support provided to these fields by this subcommittee are provided through NSF. (Figure 4)

Trends in Support

I want to highlight briefly some trends related to basic research:

- In contrast to education, research support has not been rising in recent years. In constant dollars, the NSF research and related appropriation for 1988 is almost exactly where it was in 1985. (Figure 5)

- Overall, federal investment in basic research and in civilian R&D has grown slowly in the past few years. By contrast, research investments by our major trading partners continue to advance strongly. We are not matching their effort in civilian R&D. (Figure 6)

We must do better than this. In nearly every field that NSF supports the opportunities to make important advances have outrun the available funds.

Emerging Research Areas

Superconductivity is but one area in materials research that promises important economic benefits. There are many others.

In mathematics, chaos theory is almost entirely new in just the past few years. It already promises to help us understand complex phenomena that have eluded us in studies ranging from weather patterns and fluid dynamics to distribution of biological resources.

Biotechnology continues to be an area of accelerating development. New knowledge from basic research promises new applications. Recent emphasis on biological communication, how chemical signals operate between cells and between organisms, has significant implications for agriculture and human health. Major new industries -- only dimly visible today -- will stem from today's basic research.

American manufacturing appears to be starting a comeback, as it must if we are to prosper. But manufacturing will change dramatically over the next decade as new materials, computer aided engineering design, robotics and other new technologies emerge from basic research. Studies in neuroengineering are comparing neural networks in the human brain with computer circuitry. Findings will be of direct use in development of robot visual systems, computers that recognize and respond to human speech, and other advances with industrial applications.

Research on global change is focusing on unprecedented studies of the planet Earth as a complex system of interacting processes. We are at the threshold of understanding the far reaching implications of natural and man-induce environmental changes. This undertaking requires not only direct support for research, but large-scale operations and logistics support.

The Antarctic, because of its major influence on world climate, has a unique role in research on global change. Operations support here is critical. Only one research ship with ice strengthened capability, the Polar Duke, is available following the decommissioning of the Coast Guard's Glacier. Current requirements for 300 days per year for each of two ships cannot be met. The Foundation's FY 1989 request includes provisions for leasing a new ship.

The world is in an unprecedented period of technological development. We know that nothing like the present has been seen before, and a reasonable guess is that the future will be even more intense and fast-paced.

Science and technology are critical factors in the nation's global stature. Unless the United States is willing to cede its historic position of world leadership to others, we must find resources for the necessary investment in basic research.

LINKAGES: CENTERS AND GROUPS

Cooperation among the various sectors of our economy is the third element of an effective science and technology enterprise. It is encompassed in the third theme of our proposed budget, support for research centers and groups.

This is especially important in the United States because our research system is built on the research university. This keeps research and education tied closely together, which is a major strength and one of the reasons why our universities are the envy of the world.

The drawback of our system is a tendency for university research to be isolated from economic reality. We need explicit mechanisms to make sure this does not happen, and that the results of our laboratories flow smoothly into industry.

NSF has been a leader in developing new ways to bring the various players in science and technology more closely together. Support for research centers and groups totals $477 million in the FY 1989 request, an increase of $188 million over FY 1988. The new program for Science and Technology Centers is a significant feature of the proposed increase.

Research Centers and the Organization of Research

The Foundation's Engineering Research Centers (ERCs), established in 1985, have stimulated significant industrial support and thereby brought new resources to the universities. Each NSF dollar has been more than matched by industry contributions. Even more important, however, is the contribution that industry has made by committing time and people to help make the centers work.

The centers concept has also stimulated interagency cooperation, notably the FY 1988 Plant Sciences Centers, jointly supported by NSF and the Departments of Agriculture and Energy.

Our budget for 1989 requests funding to extend the ERC concept to other areas in science through the Science and Technology Centers (STC) program. The STC program, originally proposed for FY 1988 was not initiated because of severe budget constraints. However, over 300 proposals from 124 institutions in 42 States were received, and merit review is proceeding.

We propose a new appropriation in FY 1989 of $150 million for Science and Technology Centers, sufficient to fully fund 12 to 15 centers for up to five years. Our intention in keeping this appropriation separate and in providing full funding at the outset is to avoid committing the Foundation's future resources to an unwise degree, to establish a low and steady outlay rate, and to answer the concern of those who fear that the centers might displace traditional support mechanisms.

We understand this concern, but think it is misplaced. The Foundation's support for individuals has been and will continue to be our primary concern. (Figure 7)

I would also note that many individual researchers work in centers or are seeking to establish centers. Among those who have submitted center proposals are 350 currently-active NSF principal investigators.

The traditional organization of research in our universities into disciplinary departments has been tremendously productive. It is still the best single way to do science. But it is not the only way. Research groups crossing disciplinary lines, and interdisciplinary centers tied closely to industry for more effective knowledge transfer, provide healthy diversity. A responsible science and technology policy must balance these approaches.

PRIORITIES

I would like to focus for a moment on responsibilities and priorities.

Within the Foundation there is a constant need to make our programs fit the available resources. We cannot accomplish everything, and we must continuously reassess existing areas of support in order to make resources available for new research directions.

The FY 1989 budget was developed with this in mind. Our first priority is people, both in developing human resources and in research support. We stress the value of the individual investigator, but we also recognize the value of group efforts and centers. We have also made difficult choices between specific disciplinary areas, providing increases for the most important areas at the expense of others.

The Congress has the same problem. You have before you proposals for a number of large projects, some of which are entirely science projects and some which serve other goals as well. Scientists and engineers can tell you why our programs are important, but have no special expertise with respect to other choices.

We do know, however, that nearly all Federal missions -- from highways to health -- depend on scientific and engineering expertise, and will benefit from new knowledge and new technologies. The most important thing is to make sure we have highly trained people, and that we keep our research programs diverse and broadly based. Neither the space station, nor the super collider, nor the human genome project will be successful without the right people, and all are heavily dependent on new technology.

The National Science Foundation has put forward a proposed budget for FY 1989 that will make significant progress in strengthening our science and engineering enterprise:

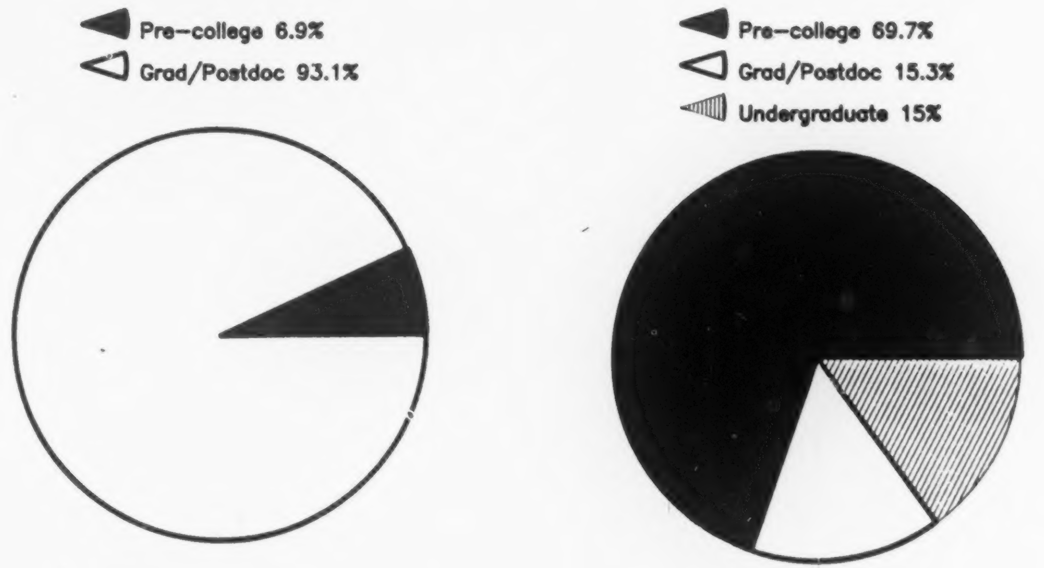
- We focus on people, because everything else depends on that most basic resource.
- We emphasize university basic research, because universities are the core of our research capability.
- We are mindful of balance, among different areas of science and engineering, and among different modes of support, because diversity provides the richest environment for inquiry and innovation.

These themes are at the heart of the Foundation's mission to promote the health of science and engineering research and education. They delineate the Foundation's fundamental contribution to the nation's global leadership.

This committee has played a lead role in building the vital recognition of the links between research, education and the welfare of our nation. I hope we can count on your support for our request.

Figure 1

SCIENCE AND ENGINEERING EDUCATION
SUPPORT BY EDUCATIONAL LEVEL
FY 1983 – FY 1989



FY 1983 (TOTAL = $16.09 MILLION)

FY 1989 (TOTAL = $156.00 MILLION)

Figure 2

NATIONAL SCIENCE FOUNDATION
SUPPORT FOR HUMAN RESOURCES

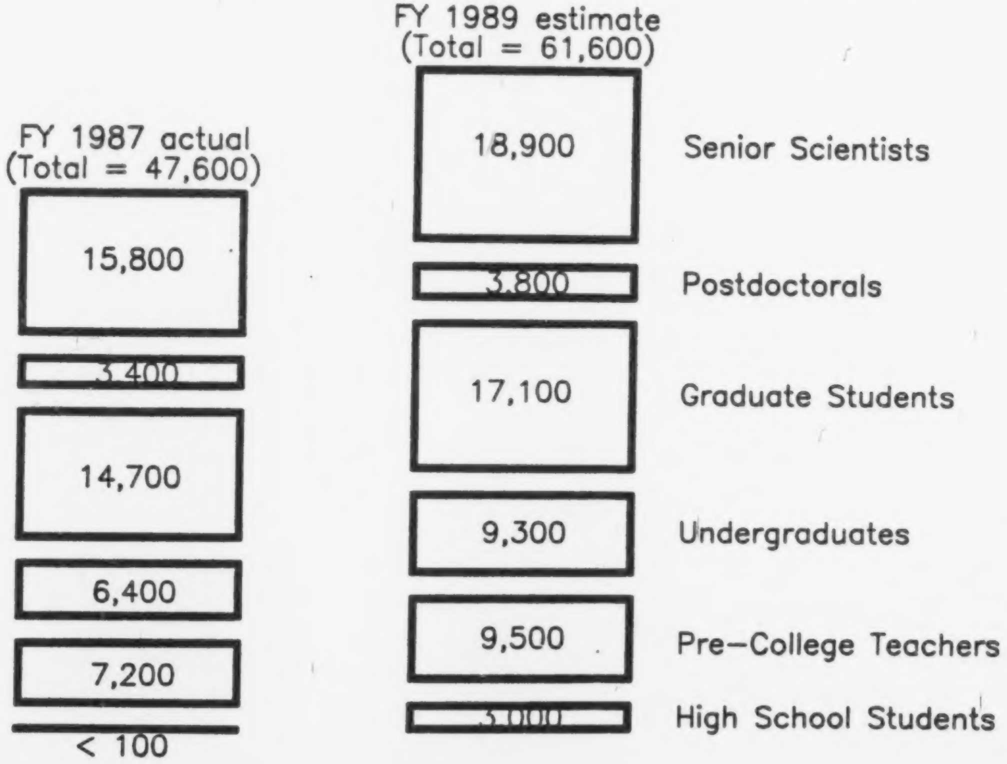


Figure 3

PERSISTENCE OF NATURAL SCIENCE AND ENGINEERING INTEREST FROM HIGH SCHOOL THROUGH PH.D. DEGREE

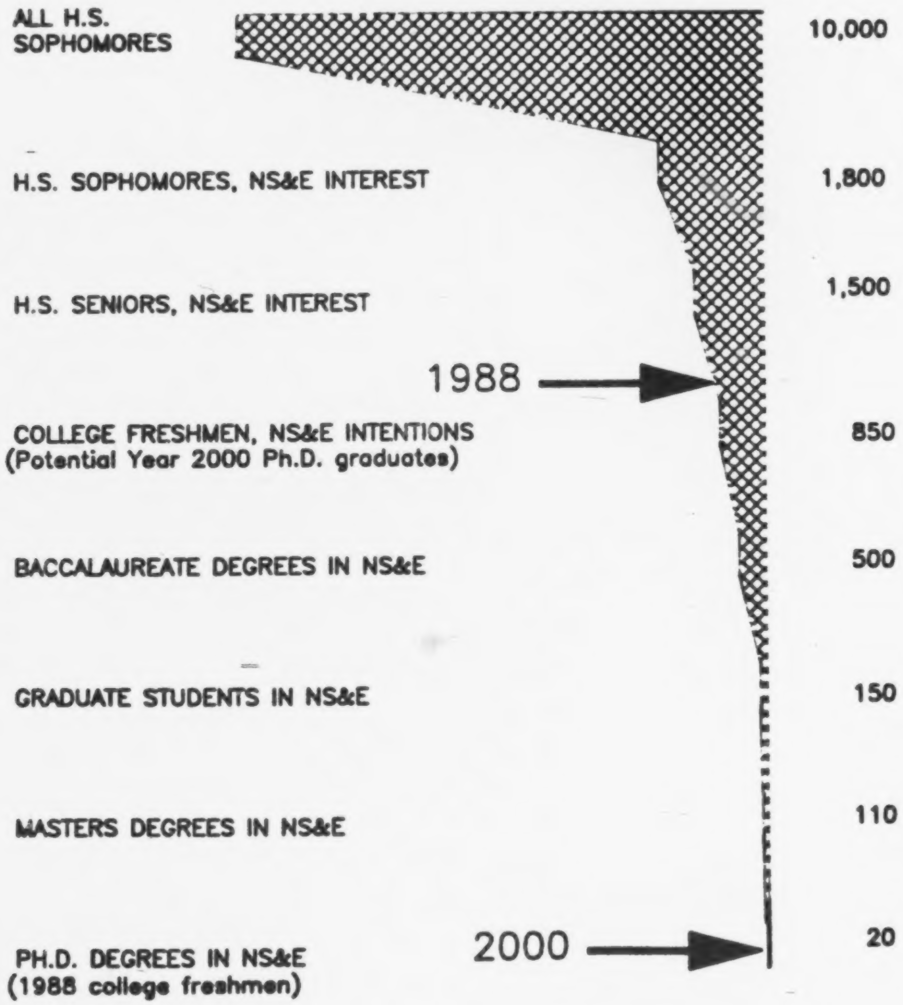


Figure 4

HUD/Independent Agencies Subcommittee Role in Federal Support of Civilian Academic Basic Research in Physical Sciences and Engineering

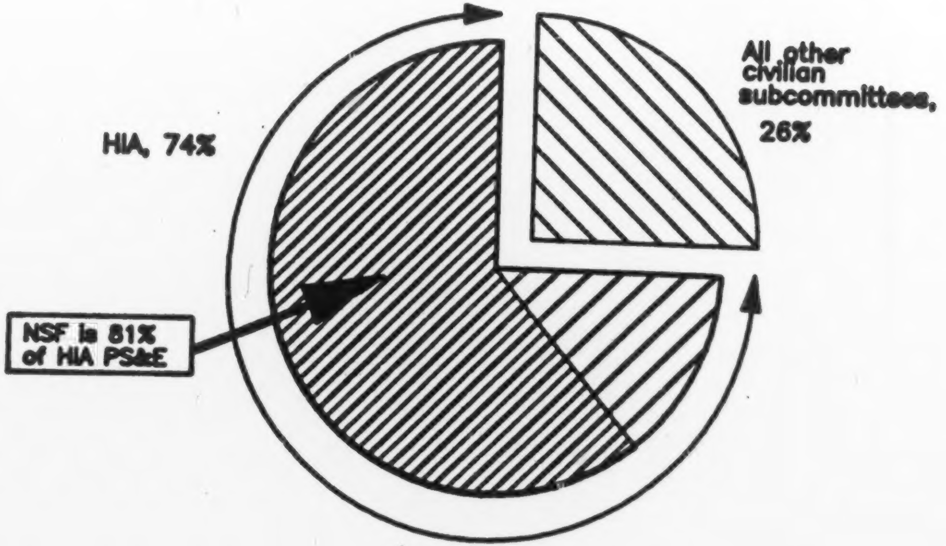


Figure 5

NATIONAL SCIENCE FOUNDATION
BUDGET TRENDS
RESEARCH AND RELATED ACTIVITIES

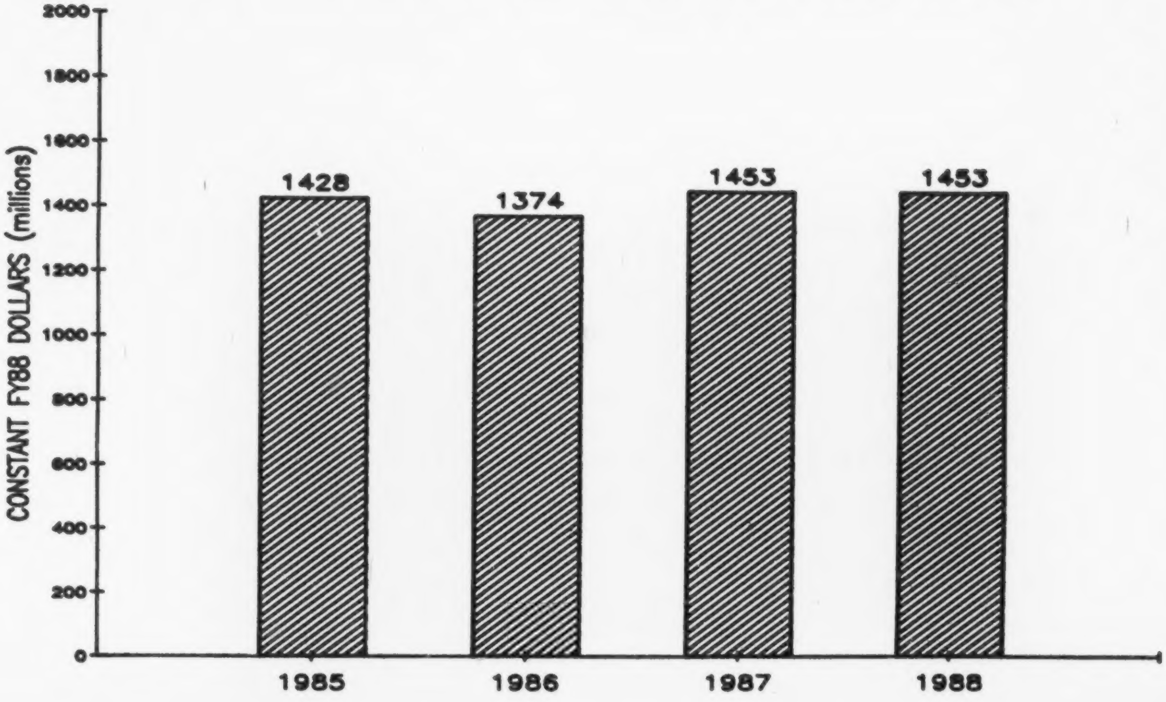
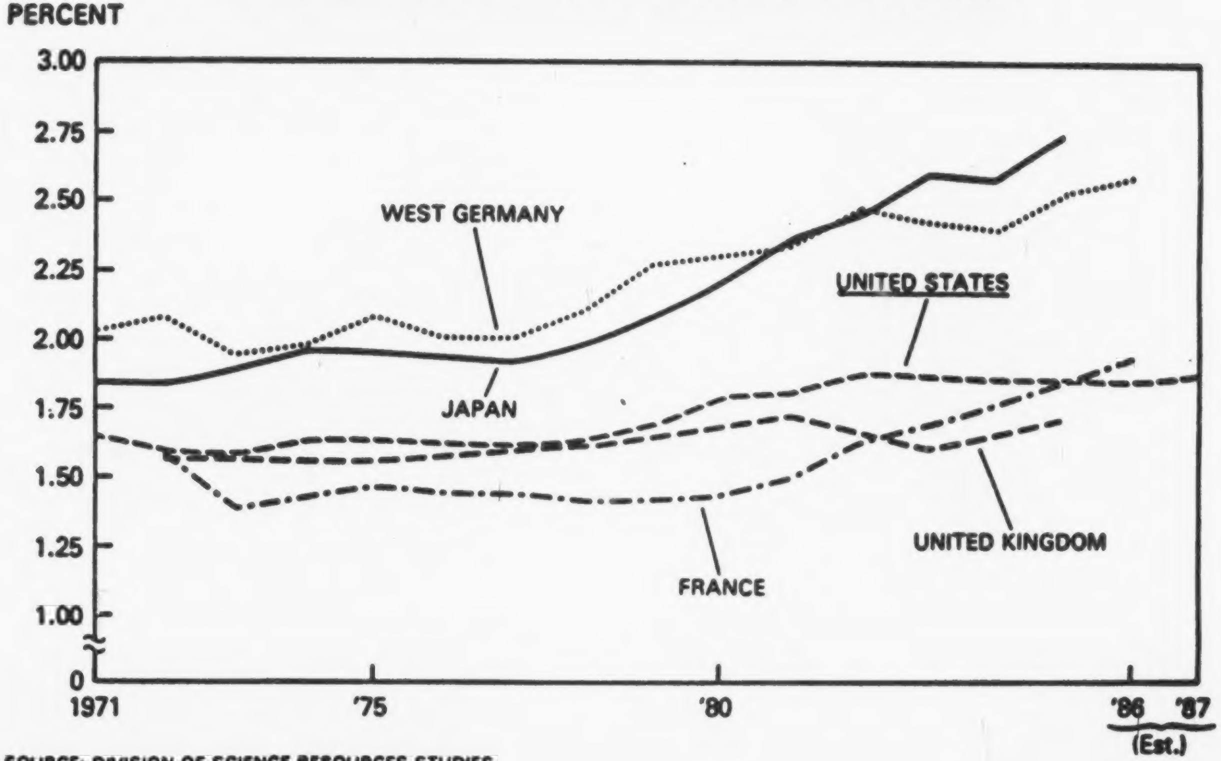


Figure 6

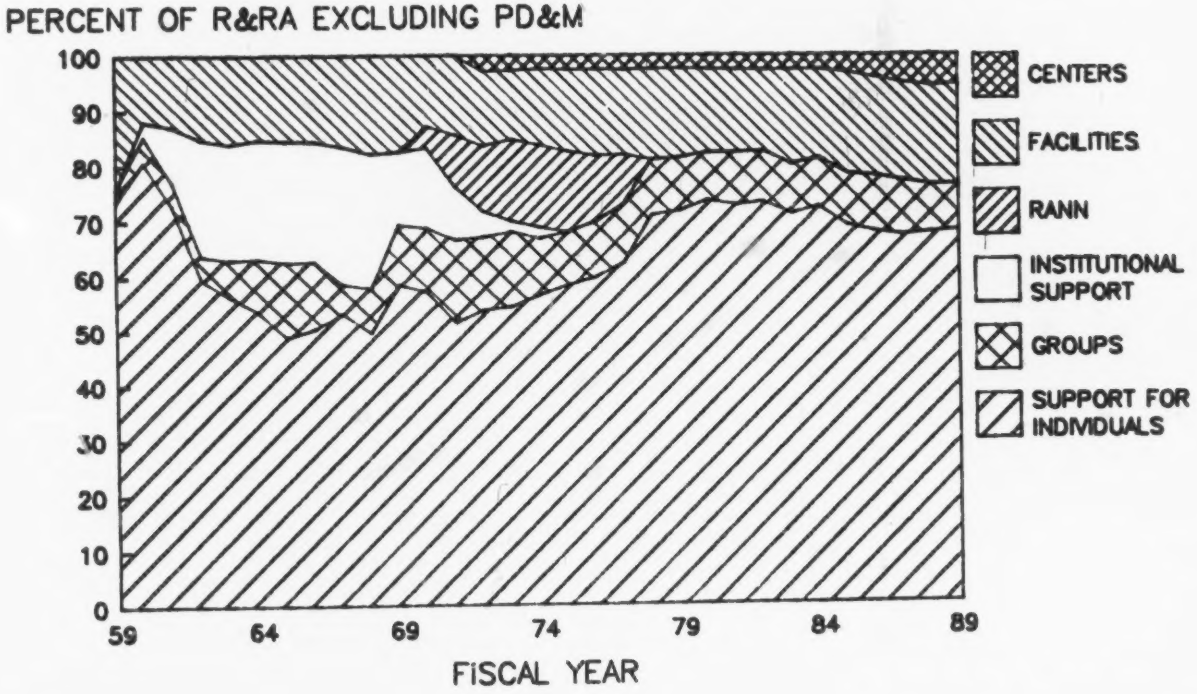
NON-DEFENSE R&D EXPENDITURES AS A PERCENT OF GROSS NATIONAL PRODUCT (GNP) BY COUNTRY



SOURCE: DIVISION OF SCIENCE RESOURCES STUDIES.

Figure 7

RESEARCH & RELATED ACTIVITIES
TRENDS IN CATEGORIES OF SUPPORT



Senator PROXMIRE. Thank you, Mr. Bloch, very much. I am going to have to go to the floor, unfortunately, for a few minutes. I am going to ask the Senator from Iowa, Senator Grassley, to chair the subcommittee while I am gone. I will be back as soon as I can. I have to make a statement on the floor.

YOUNG SCHOLARS PROGRAM

Senator GRASSLEY [presiding]. There is a lot of opportunity through your programs and a lot of opportunity to make needed changes in education; a lot of problems pointed out in your opening statement with good intent for leadership from the Foundation to improve the educational climate and the product of that educational system.

So I don't think there is any shortage of problems that you deal with and I compliment you on the positive approach that you have taken. I will start my questioning with the Young Scholars Program, if I could.

It is proposed to grow by 90 percent in 1989; is that right?

Mr. BLOCH. Yes.

Senator GRASSLEY. OK. The program began in 1988 with a budget of $3.7 million. What is the program meant to accomplish from your perspective, because you didn't touch on it, and what is the status of the first year's awards?

Mr. BLOCH. Yes; I didn't touch on it because I can't touch on everything.

Senator GRASSLEY. No; I know that, and I don't mean that to be critical.

Mr. BLOCH. Young Scholars Program is one of the programs that I generically discussed when I talked about the education programs. This program, in particular, will give some high school students either summer or school year experience, or both, to get them acquainted with what science and research are all about. It is to provide some stimulation for them to pursue science or engineering as a career path.

It is time to address the problem that we all see: the current dropoff in percentage terms, not in absolute terms, of science and engineering enrollments. That is something that we all are concerned about. This program is one way of stimulating interest before students have passed the opportunity to enter science or engineering.

These awards have not been made yet; they will be announced very soon, and we will be glad to get a copy of that announcement to you.

UNDERGRADUATE SCIENCE AND ENGINEERING EDUCATION

Senator GRASSLEY. In regard to undergraduate science and engineering, I note that the Directorate for Science and Engineering Education is proposing to increase its support for undergraduate science education, not only in the instrumentation area through the well-known College Science Instrumentation Program, but also in the areas of faculty development, curriculum, and in other represented groups.

In addition, I believe the recent establishment of the Division for Undergraduate Science and Engineering Education is going to end up being a very positive development; at least that is the way I see it. As I recall, the National Science Board's report on undergraduate science education called on the Science Education Directorate to play a leadership role for the Foundation in this area. This year's budget proposal seems to be consistent with that policy direction.

Is it correct to view these developments as a sign of the Foundation's intent to continue to expand the role of the education directorate in support of undergraduate science education?

Mr. BLOCH. Yes; that is correct. In fact, let me explain a little bit more and then I will ask Dr. Good to comment. Dr. Good came in a little bit late this morning and I couldn't introduce her at the beginning. She is a member of the National Science Board and she is the chair of the Education and Human Resources Committee of the Board.

Let me comment in general about the undergraduate program in the Foundation and then Dr. Good can comment, also. We have concentrated NSF's undergraduate programs in the Directorate for Science and Engineering Education, and in particular, in the Division office that you mentioned. This Division oversees the undergraduate program, though it does not fund the total undergraduate program. Some parts of it are funded through the research directorates.

The reasons why we wanted a central focal point is very clear; namely, to make sure there is a central coordinating point for outside interested parties to approach the Foundation on undergraduate activities instead of having to go to three or four different directorates.

On the other hand, we wanted to keep some of the responsibilities for the undergraduate programs within the research directorates to maintain a direct involvement by the research directorates in undergraduate activities. This involvement is essential for those directorates so as not to distance the research directorates from this very vital part of the Foundation's mission.

So, yes, you should look at it as a major step forward. This Division holds a major responsibility for undergraduate programs, but not the sole responsibility. We want the involvement of the other directorates also.

Maybe Dr. Good would like to comment on this.

Dr. GOOD. I believe it is important.

Senator Grassley, first let me apologize for being late. It took me longer to get from National Airport to here this morning than it did from Chicago to Washington, so my apologies.

Senator GRASSLEY. It took me 1 hour and 15 minutes to get in for a normal 35-minute drive.

Dr. GOOD. Right; so you understand the problem.

Senator GRASSLEY. I sure do.

SCIENCE AND ENGINEERING PIPELINE

Dr. GOOD. My apologies. If I could ask you to look at figure 3 in Mr. Bloch's testimony, perhaps it would be easiest to discuss that undergraduate thrust and the effect of the programs that you just asked about on the students and tell you what the National Science Board's thoughts are on that.

It is the one that looks like this, sir, the pipeline sheet.

Senator GRASSLEY. Yes.

Dr. GOOD. We have begun, in the committee of the Board on what we refer to, humorously, as the Pipeline Committee, to look at manpower questions with respect to science and engineering in the country. We have begun to look at the demographics. I realize that we have had wolf cries in the past about the fact that we are not going to have enough science and engineering students. In many cases, we have been able to fill the gap over a reasonable period of time, but I do believe this time that the situation is quite different from what has been true in the past.

We have to look at what is happening. If you look at this figure, the pipeline starts with 10,000 students. If you take a cohort of 10,000, notice that by the time they get to be seniors, only 1,500 of them have any interest in science and technology or science and engineering.

If we look at the number of students who indicate on their SAT's that they have an interest in science and engineering, that number has been coming down very rapidly over the last 5 years. For example, in mathematics it has fallen from 4 percent of the people who take the SAT's to 1 percent. Now, that is out of a smaller cohort, too; you understand that if the number of people in the pool is smaller, the percentage of those interested is much smaller.

In the physical sciences, it is now down from something over 3 percent to less than 2 percent. The engineering pool is now going down. This fall, for the first time, people are beginning to see significantly reduced numbers of applications for science and engineering positions at the best universities across the country.

So there is a major problem, and the question is: What do we do about it in the relatively short term? By short term, I mean the years 1995 to 2000. How are we going to have enough people to take care of our business? And what about the long-term problem? If you look at this problem, we need to intercede somewhere. We need to get our feet in the machinery. The first priority is to take care of needs between now and the year 2000; we can't go back and talk about the grade schools, because if you think about it, that is too far out, right?

These kids who are coming in as freshmen next year will be the ones who get Ph.D.'s in the late 1990's. We don't have time to catch up by intervening in the grammar schools. On the other hand, if we don't do something about the grammar school question today, the situation will be absolutely impossible by the year 2020. So the point is, what we want to do is to intervene in two places immediately. One is to stir up interest, and that is what this Young Scholars Program is all about, to try to get some of those kids who are interested in science to stay on in the program.

The other is to intercede a little bit further up, and some of our graduate programs are designed to do that. Notice that the number drops from 1,500 of high school seniors who are interested in science and engineering to 850 by the time they are called freshmen. That is almost half. Now, part of that drop is because a fair number of them do not have the credentials. In other words, some of that dropout is because they are not qualified. It is not because they are not bright enough, in general; it is because they don't have the credentials from a high school education. So these programs and the undergraduate education programs are designed to try to do something about this major dropout so that we have an adequate supply of advanced technical people to compete in the year 2000.

I think that the National Science Board has really gotten the message. At the meeting last week we had a group of National Science Board members, all of whom were either engineering or science faculty, except for a couple of us migrates from industry who asked that the undergraduate programs are funded at least competitively with anything else the Foundation does.

So I think we are quite serious about that. Our problem is, if we don't manage to intervene in some effective way, the individual programs aren't going to help very much because we are not going to have anybody to do the work.

Senator GRASSLEY. The answer is "Yes," there is a trend in the direction of emphasizing and continuing to emphasize that, as you can see, as best as you can into the foreseeable future?

Mr. BLOCH. Yes. For 1988, we had bigger plans for undergraduate education programs than we are able to implement because of the budget situation. We are trying to make up for that with our 1989 request, but you can't make up for it; you can only catch up with it.

PLANT SCIENCE CENTERS

Senator GRASSLEY. Last year, you announced a new program involving the U.S. Department of Agriculture and the Department of Energy to establish a number of science centers. What is the status of that program?

Mr. BLOCH. As you know, this is a cooperative effort between the three agencies that you just mentioned. The program has received all of its proposals from the community and they are being reviewed with the intent of funding a number of these centers between now and this summer.

One of the centers has been funded out of 1987 funds, primarily due to the fact that the Department of Energy was able to put some dollars into it. We expect about three centers total to be in existence some time this year.

INDUSTRY-UNIVERSITY INFORMATION EXCHANGE

Senator GRASSLEY. Thank you very much.

On another point, is the federal government doing an adequate job of facilitating the interchange of knowledge between researchers and the federal government, academia, and industry? Assuming that more can be done or there are problems there, what barriers exist to the interchange of information and knowledge, and if there are barriers, how do we get rid of them or diminish them?

Mr. BLOCH. I don't know if the federal government is doing enough. You can never do enough, obviously, in this very vital area of transferring information between those that generate it and those that have a way to use it.

Many of the Foundation's programs address that particular problem. That is why we are requiring both the new science and technology centers, as well as the engineering research centers, to have an industrial component associated with them. That is in order to make sure that there is good interface between industry and the research laboratories that we are funding.

In many of the other programs of the Foundation, we have similar kinds of interests. The Presidential Young Investigator Program is a matching program with industry. The matching is not just to leverage the federal dollars, although that is very important. It is also to make sure that there is peer-to-peer interaction between a young researcher in the university and his counterpart in industry.

We are continuously looking at ways of making improvements in this regard. The Industry University Cooperative Research Centers Program of the Foundation, which has about 40 or 45 centers involved with it, is geared to exactly that particular proposition; that through joining and working together, there is a better transfer of information possible between the two sectors—university and industry.

It is a continuing problem. Obviously, the National Laboratories have also been very active in this particular area and have been focusing more heavily on it. We have been working closely with some of them in some areas to add to it.

I am sure Dr. Good, with her industrial background, would want to comment on that, also.

TECHNOLOGY TRANSFER THROUGH CENTERS

Dr. GOOD. Technology transfer, which is the buzz word for what you are asking, Senator Grassley, is how the laboratory research is translated into a product on the street. And the question is: How do you encourage technology transfer? It turns out that you do it primarily through people. One of the things, I think, that is misunderstood about technology transfer—and that those of us in industry who have been successful in getting information flows between the industry and the universities have learned—is that it only happens when you have people who want it. Programs, in general, don't do that for you other than by providing a climate for the people to interact.

So what is really effective is to design programs that make it natural for the people in the university programs to interact with the people in the industry programs.

The centers, in some ways, do that. They cover a broad spectrum, but they focus on narrow issues that industrial people can get their arms around and get very interested in. If it is something that is obviously going to affect their businesses, they will commit some people to interact with those people in the universities.

One of the things we have tried to do in the centers program is to ask for interaction between the two groups. We want to make it possible and productive for an industry person to work directly with a university person. That is truly the only way that you get that interface to work. It just does not happen by reports and papers and things like that. What really makes it work is when people interested in doing it are on both sides. These centers provide that kind of an atmosphere. It turns out that in many cases, the industry participants are as interested in having discussions with the other industry people in that center as interacting with the university people.

You know, we have had a difficult problem in this country. We have a bad NIH syndrome, "Not invented here." And we don't utilize technology amongst ourselves, much less what comes from the university. So this interaction that has been created by some of these centers is truly vital.

My company has been involved in a couple of the centers. Let me give you one example. The new Center for Catalysis Research at Northwestern University, which is one I am very familiar with because we are a member and have a major interest in it. The NSF money was highly leveraged by the industrial funding in that center.

The meetings that are held there include participants from the research groups within the industry and research groups within the university. People have utilized ideas that have come out of that center and sometimes have been able to get them into their development streams within 6 months. So it is a question of developing an atmosphere where that kind of interaction between people can take place.

PROGRESS IN TECHNOLOGY TRANSFER

Senator GRASSLEY. Can you tell me how you hope to bring it about or what you are doing to bring it about? Have you seen progress in this area, let's say, in any period of time you want to pick, the last 5 years?

Dr. GOOD. Yes; I think we have.

Senator GRASSLEY. If I had people from industry here, would they be as positive?

Dr. GOOD. I think they would. Of course, not all of them would because some of them don't take advantage of it as well as they ought to. But let me give you a couple of examples that I know very well. The Center for Catalysis Research at Northwestern is very heavily used by industry. Let me give you another one. There is a major program in advanced composites going on presently at the Rensselaer Polytechnical

Institute. I happen to know about that one, being a trustee of RPI. The industry interface there is very, very heavy. The aircraft industry, in particular, is interested in the field of advanced composites. Most of us in industry don't have the ability to do all of the background work that is required to get into this area, such as developing new resins. You are beginning to see some work that comes out of that center actually being utilized and put into practice by some of the industrial members of that center.

Mr. BLOCH. If I just can comment on that a little bit further, since it seems of great interest to you. I think there is a cultural change that is going on in the relationship between academia on the one hand and industry on the other. Certainly, in the high technology areas, but I won't make this point across the board. Many interactions are taking place, sometimes on a private basis, sometimes because of the role of the federal government, other times because of the role of an industry that is trying to do something for itself, such as semiconductors.

I think this cultural change probably has only occurred over the last 5 or 6 years. If it continues, it will help us greatly in bringing a closer relationship between the two sectors and also a much more real-time transfer of information. The superconductivity flurry last year and this year is a case in point. Because of NSF's support and also, obviously, because of other countries' involvement in it and industry's involvement, the temperature for superconductivity has changed dramatically. It has come closer to room temperature with great promises for the future.

But I think there is a flurry of activities reflected in the relationship between laboratories and industry. The work going on in various laboratories, I think, is a sign of this cultural change that I talked about.

SCIENCE AND TECHNOLOGY CENTERS

Senator GRASSLEY. What is the status of the Foundation's Science and Technology Centers Program?

Mr. BLOCH. Well, the status is the following. We issued a solicitation late last year and the intent was that, based on the evaluation of those solicited proposals, we would fund some centers in 1988 with 1988 money. But when it became clear in December that our research budget would increase by about 3 percent instead of the requested 17 percent, we had no way of funding any of these centers in 1988. What we are doing is taking the approximately 325 proposals that came in and evaluating those, with the idea of funding them out of the 1989 budget. For that reason, we have a special appropriation line in the 1989 budget of $150 million which I mentioned in my opening statement, which would fund about 12 to 15 centers, depending on the size of the centers, for a period of 5 years.

So we hope that we can make good with regard to the solicitation and with regard to the proposals that we have in house today.

LONG-RANGE SUPPORT FOR SCIENCE AND TECHNOLOGY CENTERS

Senator GRASSLEY. I know that when it comes to R&D activities, there is a need for adequate and stable funding patterns if anything is going to be successful, or at least long range. How is the support for the development of these centers reflected in the Foundation's long-range R&D program?

Mr. BLOCH. That is why we are essentially asking for a one-time appropriation of $150 million to fund these centers for 5 years. The centers would be evaluated as to their effectiveness after 3 years. Those that performed well would continue; those that didn't perform well would be phased out after the fifth year. In this way, we have taken into consideration the long-term aspects of the science centers.

GEOGRAPHIC DISTRIBUTION OF SCIENCE AND TECHNOLOGY CENTERS

Senator GRASSLEY. Will the geographic dispersion of awards be considered at any point in the selection process?

Mr. BLOCH. Let me make the following points: geographic distribution is always on our minds, and I think we have done pretty well with it. There is no prescribed geographic distribution. In fact, I don't think that you could do that. I want to point out that 14 engineering research centers that are in existence today without any prescribed distribution. I think you will find these 14 centers pretty well distributed across the country, as well as 14 centers can be distributed over 50 states, obviously.

So I don't think we have had, in the engineering research centers or in the IUCR's, the industry university cooperative research centers, any problems with geographic distribution. There is no prescribed formula that we are applying.

Senator GRASSLEY. Then my last question would be, and it is the reverse, kind of, of the question just asked, then there is not any limit on geographic concentration?

Mr. BLOCH. No; there is no limit on geographic concentration. But you will find that as is the case of engineering research centers, that there was no undue concentration.

Senator GRASSLEY. Mr. Chairman, thank you.

Mr. BLOCH. Either by region or by state.

RESERCH PRIORITIES FOR SCIENCE AND TECHNOLOGY CENTERS

Senator PROXMIRE. Mr. Bloch, you are requesting $150 million, as I understand, in fiscal year 1989 for a new multiyear Science and Technology Center Research Program. In your budget justification, you say, and I quote, "NSF received 325 proposals for the science and technology centers," but the NSF appropriation precluded funding in 1988.

At last year's hearing you were asked what criteria were to be used and what research areas were of highest priority. You answered that the National Academy was developing criteria but that priority areas had not been identified. Having received over 300 proposals, can you tell us what priority areas have now been identified as being of highest significance?

Mr. **Bloch**. Well, the priority areas that have been identified by the proposals themselves range throughout all of the sciences: physics, mathematics, chemistry. They are the ones that are on the leading edge of development today. You will find among the 325 proposals that we have a very broad range of activities.

Senator **Proxmire**. They are all of equal priority? You have no priority distinction?

Mr. **Bloch**. We have no priority distinction as to the 325 proposals that are in. What we are going to do is put those 325 proposals through a very thorough peer review. Does it make sense? Is it an important problem? Are the issues being identified important issues? Will it lead to an advance in a particular science?

But we have not put in place any kind of notion that in one area or another there is a bigger need for these centers or higher priority for these centers.

DIFFERENCES BETWEEN RANN AND THE SCIENCE AND TECHNOLOGY CENTERS

Senator **Proxmire**. Well, I hope these centers succeed. I am concerned, however. As you know, in the 1970's, the Foundation initiated a program called Research Applied to National Needs, or RANN, which was subsequently abandoned. RANN was considered a device to speed the transfer of new knowledge from the laboratory to the marketplace, just as the proposed interdisciplinary centers are supposed to do. Why do you think these centers will succeed where RANN failed?

Mr. **Bloch**. I am afraid I wasn't here when RANN was a program, so I really cannot talk about it with great authority. But let me say first what I think is the difference between the RANN program and the center programs; that is, either the engineering research centers or the science and technology centers. It doesn't make much difference which we compare.

The center programs are primarily aimed at fundamental research; the RANN program was not. The RANN program was more geared to applied research. What the centers also are trying to establish is a linkage to education, both undergraduate education and graduate education but, in particular, undergraduate education.

The centers also are trying to put into a university a capability, in terms of instrumentation and equipment, to address major areas of research. I think the centers have a completely different approach and the subject matter is much more at a fundamental level than was the RANN program.

Also, maybe one of the reasons RANN failed is that the topics in the RANN program were preselected. Maybe that was one of the problems. We are not preselecting, as I mentioned a minute ago, the topics in these areas.

OVERLAP BETWEEN CENTERS AND INDIVIDUAL RESEARCHERS

Senator PROXMIRE. I have acknowledged that the science and technology centers is a new program, but there are many other "centers" programs at NSF. I am somewhat concerned that in funding your proposed interdisciplinary centers, we might be overlapping to some extent the funding we provide to individual researchers who are also taking part in interdisciplinary center activities.

What sort of overlap do you see between the work being done by individuals on their own investigator-initiated grants and that being done by those same individuals at existing centers?

Mr. BLOCH. The center's programmatic activities should not be a collection of individual grants. They should be activities that require the working together of people from many different disciplines and not just from one particular discipline.

They should address a much broader issue than one individual can address with his grant. They should require a much bigger collection of instruments and equipment than an individual investigator has available. So essentially, the programmatic context, as well as the environment in which this investigation occurs, should be on a completely different scale to the work an individual investigator with a couple of graduate students can do in his or her own laboratory.

Will there be programmatic overlap between a few areas? I am pretty sure there will be. Some disciplinary grants that we make look in detail and in deep specifics into many areas which may be covered by centers. I suspect that they might fit very well with some of the work that is going on or that gets started or that gets continued in the centers.

But I don't think the direct overlap that you are concerned about will be there.

INVESTMENT IN SCIENCE AND ENGINEERING EDUCATION

Senator PROXMIRE. Mr. Bloch, I appreciate your stress on education. All of us recognize that education is critical for this country's strength, particularly science education. The Presidential candidates are all talking about it; the President himself talks about it.

I wonder about what has happened in the past. We have spent a lot of money here on education. I just wonder why we are not getting results. You are proposing to spend $156 million on science and engineering education in 1989. That is an increase of $24.3 million over your current budget. You are requesting $18 million for instructional material development in 1989, an increase of 90 percent above your 1987 appropriation and your 1988 budget request.

Out of curiosity, our staff went back to your 1981 justification and found a request for $11 million for developing and evaluating course material, experimenting with school methods for delivering science education and developing methods for keeping science education current.

The point is that this kind of work has been supported for at least a dozen years, and during that time, we have seen our relative understanding of scientific and technological concepts as a nation, compared to other nations, fall. In fact, the Foundation released a survey report that claims students at the 5th, 9th, and 12th grade levels in the United States performed poorly in science subjects compared to their counterparts around the world. You called for a reexamination of how science is presented and studied in the United States. The survey report specifically called for the development of new curriculum materials for students in grades K through 12. This kind of report, however, makes me wonder how we have been spending our instructional material money over the past decade or so.

More specifically, it makes me wonder not only about what types of material are being developed, but whether or not they are evaluated and used or whether they are merely being put on the shelf and forgotten. What systems do you have for evaluating the course materials developed with Foundation dollars to determine whether or not they enhance teaching of science?

Mr. BLOCH. Let me make a general comment and then I would like to ask Dr. Shakhashiri, who is the Assistant Director for Science and Engineering Education, to comment on your last question. First, the general point I want to make is the following: that one has to continuously invest in science and engineering education. Just as science is changing, so must the educational content also change. It is quite true that in the past, we invested all of these dollars that you are citing. By the way, we are a small part of the total investment that goes into this particular area, if you look at the country as a whole.

Obviously, at the local level and at the state level, there is major investment going on. But I think it is our up-and-down position that has gotten us into the difficulties that we are in. Right after Sputnik, for instance, there was a huge cry about better education in the sciences in the precollege area. Then we forgot all about it. Today we have to dig ourselves out of that hole again.

So I think we are not very consistent as a country in this particular area. That is one of the reasons why we are in the trouble that we are in, but certainly not the only reason.

The second one is that we have got to understand that education is changing; it has to change, as science is changing. I would like to ask Dr. Shakhashiri to comment on your question: How do we know what we get back for our investment?

Senator PROXMIRE. Dr. Shakhashiri, go ahead.

EVALUATION OF MATERIALS FOR SCIENCE EDUCATION

Dr. SHAKHASHIRI. Senator Proxmire, we have in place a number of well organized activities to give us feedback on the impact of the materials that the NSF has funded, in terms of their usefulness and their distribution throughout the country. We have a special office in the Directorate for Science and Engineering Education called the Office of

Studies and Program Assessment, and the purpose of that Office is to assist the Foundation in assessing and evaluating its science and engineering education activities.

Through that Office, we have been using several mechanisms to obtain feedback about the use of instructional materials.

On at least two occasions we have contracted for examination of materials that have been used and for finding more effective mechanisms for increasing their distribution. The request that we have made for 1989 is in keeping with the recommendations of the report that was prepared as a direct result of the congressional mandate to the National Science Foundation. I speak specifically of the report of the SRI contractor. You may recall, Senator Proxmire, that this committee directed the National Science Foundation, in fiscal year 1985, to develop a management program course for its science and engineering education activities.

The recommendations that you see in the fiscal year 1989 request are in keeping with the recommendations that are in this report that was just completed.

SURVEY OF INTERNATIONAL SCIENCE STUDENTS

Senator PROXMIRE. Dr. Shakhashiri, you are an expert in this area. As I understand it, there were about 16 or 17 countries surveyed, and we were about the 14th?

Dr. SHAKHASHIRI. Yes.

Senator PROXMIRE. Is it that bad? What about these other countries? Are they spending more money than us? Are they spending less? Japan, we know, has more advantages because it is a more homogeneous country; they have a very strong education ethic. Their children go to school more than ours do, more days per year, and they are excellent at the elementary and secondary level, not so much at the university level.

But at any rate, what can we learn from the success stories? Because we are so far back, what have they done right? A, are they spending more money, and B, what else are they doing that we are not doing?

Dr. SHAKHASHIRI. Senator Proxmire, raw talent in this country is as good as it is anywhere in the world. It is a question of putting together a set of programs and a set of activities that create an environment conducive to good learning of science, good learning of engineering, in fact, just good learning, in general.

It is not just a question of money; it is a question of applying the resources in an effective manner. There are many social dimensions, as you have suggested, to the issues of education all over the world.

I think that the determination of many countries to see to it that their citizens become better educated is something that we ought to look at very carefully in this country. We need to develop very quickly a national will to improve the quality of education, especially in the sciences and in engineering. The requests from the National Science Foundation over the past couple of years, and especially for fiscal year 1989, is in keeping with that goal.

Mr. Bloch. I think the other thing, Mr. Chairman, is the prestige of the teacher, That has a lot to do with it. Also teachers' salaries in this country as compared to that of other countries should be looked at as a major problem.

FEDERAL ROLE IN FUNDING EDUCATION

Senator Proxmire. One of the problems that strikes me right away is that the federal government plays a very, very weak part in funding elementary and secondary education under any circumstances.

Mr. Bloch. Right.

Senator Proxmire. In Wisconsin, only about 6 percent of the money for elementary and secondary education comes from the federal government. I am glad we are supporting handicapped students and very poor students from very poor neighborhoods. But it seems to me if we are going to get an improvement, we have to get the states deeply and vigorously involved in this kind of a situation.

Mr. Bloch. Many of our programs have that as a goal. In fact, not only do we involve the states in it, but we also involve the school districts and some of the publishers of educational materials. Many of the programs that Dr. Shakhashiri has set up have exactly that kind of structure to them for exactly those reasons.

TEACHERS' SALARIES

Senator Proxmire. It seems to me, I don't know how we do it, because, as I say, we provide very little of the funding, and we have a very serious budget problem. But it would seem that the pay of teachers is something we have to be concerned about, to upgrade teachers by just providing more money.

Mr. Bloch. Yes.

LEVERAGING NSF FUNDING FOR EDUCATION

Senator Proxmire. Let me quote from a release from the National Science Foundation. It says, "United States 5th grade students ranked 8th among 15 countries" 5th graders. At the 9th grade level, United States students placed 15th in a field of 17 nations with only Hong Kong reporting poorer performance.

"Among high school seniors pursuing a second year of study in biology, those considered to be advanced placement students in science, United States placed last with an average mean score of 37.9 percent," and so on.

Now it seems to me that that indicates that we are spending money at the federal level, a relatively modest amount of money. Realistically, we know we are not going to increase that greatly. We might increase it even by 50 percent, but it is still on a very low base because, as I say, the federal government doesn't provide much in the way of funds. It seems to me that we should find some way of pulling the state governments and the local governments in on this, because they are the ones who really provide the funding and, of course, it goes without saying, we have to bring parents in on this somehow and get them really concerned about their children's work in science.

Mr. Bloch. That is what we are trying to do. Our programs are, at best, catalytic programs or programs that can be copied or imitated by others. Maybe Dr. Shakhashiri wants to talk about that last point.

Dr. Shakhashiri. I would like to point out very clearly that we have very strong ties with the National Governors' Association; we are trying to work very closely with Governors. We have very strong ties with the Council of Chief State School Officers, and I know, Senator Proxmire, that the superintendent of public instruction from Wisconsin is a very active participant in that effort.

We have begun to increase the NSF's interaction with state educational agencies, with local educational agencies, as well as with several elements of the private sector that have expressed a great deal of interest in increasing the quality of science education across the country.

The funds that NSF has requested and the funds that NSF is using are funds that are very much leveraged in terms of putting in place a number of programs that have a great deal of impact at the state level and also at the regional level.

Mr. Bloch. By the way, Dr. Shakhashiri is from Wisconsin, just for geographic distribution purposes. [Laughter.]

Senator Proxmire. No wonder he is so smart. [Laughter.]

Mr. Bloch. Mr. Chairman, in your absence, Dr. Mary Good came in. Dr. Mary Good is a member of the National Science Board, the chairman of the Board's Education in Human Resources Committee. She is also vice president of Allied Signal, one of those short-term companies that only look at tomorrow, and maybe she has something to say about that subject.

Senator Proxmire. Well, I might say that I have been very impressed by Ms. Good's background and training, even though she is not from Wisconsin. [Laughter.]

Dr. Good. Well, that is true, but I do come from the Midwest, Senator, so that helps some.

Senator Proxmire, as I said to Senator Grassley earlier, my apologies for getting here late, but as I told him, it took me longer this morning to get from National Airport to here than it did from Chicago to Washington. But that is one of the problems with the traffic situation here, I think.

Let me make a couple of comments on the issues that you raised. The issues with respect to the NSF program in education are two: One is the assessment issue. The government, school boards, and school districts have in the past tried a lot of programs and said, "Gee, these look like good things to do. Let's go out there and do them." They didn't think about how to decide whether the programs did any good or not.

So one of the things that we are doing at the Foundation is that we are insisting that we develop the assessment mechanism before the program is put on the street, not afterward.

In other words, the assessment mechanism will be a part of the program. I think that is a way to get an assessment in place; the people who do the program understand it. We have thought out how we can tell whether the program is doing any good or not, and go from there.

The other issue has to do with this business about how you leverage these programs into the state government. Obviously, the programs of the NSF are not very big. They simply have to be catalytic in some way or another. I think one of the weaknesses in our interchange in the past has been that everybody says education is like God and motherhood: Everybody is in favor of it.

But you have to get down to specifics. One of the ways to get the Governors' conferences interested and state school boards interested is to talk to them about specifics. They just can't get their hands around all of this generality.

So one of the things we want to do with the new programs is to look at them, assess their success, and then go talk to the school boards and Governors' conferences about programs that work—deliberate, specific programs that work.

It is our feeling that is how you catch their interest. If we go to them and say, "Look, you guys ought to support education," they understand that, and they agree with you, but little gets done. We have got to go talk to them about very specific programs, those that work, those that don't, and some ideas, and that is what we are trying to do.

SCIENTIFIC EXCHANGES WITH THE SOVIET UNION

Senator PROXMIRE. Very, very good. I appreciate that very much.

Mr. Bloch, you are requesting $63.7 million in 1989 for mathematical sciences. That is an increase of 6.8 percent above your current budget. As you know, Mr. Bloch, there has been a good deal of discussion lately in the scientific press and elsewhere of nonlinear analysis.

As I understand it, this is the body of unstable and chaotic motion that does not appear to follow an ordered pattern of behavior. The National Academies in Research Briefings in 1987 indicated that the reception for this sort of work within the U.S. scientific community has not been comparable to that seen in France and the Soviet Union.

The authors of the briefing go on to say:

> Special emphasis should be placed on strengthening ties with the Soviet efforts, for the United States stands to gain considerably from increased interaction with Russian researchers in this area. From the Soviet perspective, the United States leadership in experimental mathematics provides a natural quid pro quo.

Can you tell us generally what steps the Foundation is taking to support this kind of work and, more specifically, the extent to which we are encouraging joint research with the Soviet Union?

Mr. BLOCH. Yes. Dr. Moore can talk about that, also, in 1 minute. Let me just make two points: First of all, there is a program within the National Research Council or the National Academies of Sciences, between them and the Soviet Academy of Sciences for the exchange of work and for the holding of workshops.

We are funding a major part of that particular exchange, so you see, NSF money is supporting that. Mathematics, I believe, is one field that has been identified as worthy of consideration and pursuit.

Second, there are a number of activities that are being contemplated right now between us and the Soviet Union. In fact, there is a set of agreements in the process of being negotiated. The outcome of those agreements will determine exactly what we are going to do, and maybe Dr. Moore wants to add to that.

Dr. MOORE. Senator Proxmire, we provide core support to the U.S. Academies of Sciences for its agreement with the Soviet Academy of Sciences, and that is in the amount of about $300,000 per year. That supports a number of exchanges between American scientists and Soviet scientists in a variety of fields, not only in mathematics.

Senator PROXMIRE. This is very encouraging, in my view, for many, many reasons. One, of course, is that the more we can deal with the Soviet Union, the better they understand us, the better we understand them is constructive. Of course, they have a very advanced scientific base; not as advanced as ours, perhaps. We are proud of ours, but nevertheless, as you point out, they have pioneered in some areas where we have not. We can learn from them, they can learn from us, and we can both benefit.

Dr. MOORE. That has been our position, and that is what we are seeking to promote.

Mr. BLOCH. By the way, on a more general basis, not just the Soviet Union, we have exchanges with other countries exactly along those lines for the same reasons that you are describing. We have exchanges with the European countries, but also with Japan. Our exchanges with Japan are on the increase.

SUPPORT FOR NONLINEAR ANALYSIS

Senator PROXMIRE. The briefing goes on to say, and I quote:

> Typical U.S. universities, having departmental structures fairly rigidly defined along traditional disciplines, appear to lack the flexibility to respond adequately to the subject of nonlinear analysis.

As a consequence, although there is strong individual motivation, one hardly senses a more communal national one. What steps is the Foundation taking to deal with that problem?

Mr. BLOCH. Well, a general answer to that question is the science and technology centers. And by the way, it would surprise me greatly if this particular field that you are mentioning would not be represented significantly in the proposals that we have received and probably also in the funding that we are going to provide.

In addition to that, there is one institute which sprung up about 3 years ago, the so-called Santa Fe Institute, that has been focusing on nonlinear analysis, the chaos theory, and so forth. They came in with a proposal, and they received a grant from us this year or last year. Last year, I guess, 1987.

So we have quite a few institutes that are forming around this particular problem. We are going to get a number of these proposals, and we are going to look at those.

RESEARCH OPPORTUNITIES ABOARD A COMMERCIALLY DEVELOPED SPACE FACILITY

Senator PROXMIRE. Mr. Bloch, as I am sure you know, the administration has unveiled a new commercial space policy, which includes the federal lease of a commercially developed space facility, a sort of precursor to a permanently manned space station, for microgravity experiments. NASA Administrator James Fletcher apparently told the NASA Advisory Council on March 1 that government agencies other than NASA could also be expected to use the facility, including the Foundation. Do you believe that such a facility has any relevance to your basic research community, and would you plan to make research opportunities available to that community if the facility becomes a reality?

Mr. BLOCH. Well, if a facility like that were available, I am pretty sure there would be interest within the community that we serve. We would have every intention of trying out experiments.

We have kept ourselves abreast of not only the NASA plan, but also the private plan that you are mentioning.

Senator PROXMIRE. That is right. I primarily wanted your reaction to the small commercial facility.

Mr. BLOCH. Absolutely. We had a detailed presentation from them last August, and if the facility comes into being, we could very well be one of the users. Obviously, we can't afford to be one of the major users. It is an expensive proposition. As you know, any research has to have a good justification.

But in some of the materials areas, I think there will be some requests for doing some experiments.

Senator PROXMIRE. One of the things that appeals to me is it is so much less expensive than what some people call the space palace, the $30 billion facility that wouldn't be developed for a much longer time.

Mr. BLOCH. We are going to look for an economic use of that facility, certainly.

SUPPORT FOR ELEMENTARY PARTICLE PHYSICS

Senator PROXMIRE. You are requesting $126 million for your physics subactivity in 1989, an increase of 7.2 percent above your current budget.

Last year's physics budget request included a proposed increase of 9.6 percent for elementary particle physics in 1988. When we cut your request, you ended up cutting this subactivity slightly below the 1987 level and are now proposing a further cut of 2.8 percent in 1989.

Can you tell me why your elementary physics priority changed so dramatically over the past 12 months?

Mr. BLOCH. That is a perceived change only. It has to do with the fact that one of our major facilities that has been under construction for a long period of time is being completed, and that construction money is no longer needed in 1989. Some of it is replaced by operational dollars. So what you are essentially seeing is a dropoff of funding for construction and a slight increase in operational dollars.

SUPPORT FOR GRAVITATIONAL PHYSICS

Senator PROXMIRE. Last year you requested an increase of almost 22 percent for gravitational physics, the largest increase within the physics area. The program ended up with a 2.6-percent increase, and this year you have shifted this area to your No. 3 priority in terms of the percentage increase requested. Can you tell me what events in the last 12 months have led to this change in relative priority?

Mr. BLOCH. It was a change in management. This may be the easiest way to explain it. The program is on a developmental basis today: developing the concepts, developing the instrumentation. New management took over about a year ago and decided that the schedule for building the full facility was much too optimistic. They recommended to us, and obviously we accepted, that we delay the construction of that facility until 1990. So it is not a lack of priority; it is really the readiness of the program.

Senator PROXMIRE. Senator Nickles from Oklahoma.

REQUESTED INCREASE FOR NSF

Senator NICKLES. Senator Proxmire, thank you very much.

Mr. Bloch, I apologize for missing most of your statement. I did peruse over it very rapidly, and I congratulate you on the work and challenges that you and the Foundation have taken on.

You have, what, a 20-percent increase over last year, $2.1 billion compared to $1.7 billion?

Mr. BLOCH. Nineteen percent.

SUPPORT FOR EPSCOR

Senator NICKLES. Nineteen percent? Let me ask you a question. What is the proposed funding level for EPSCoR?

Mr. BLOCH. The proposed funding level for EPSCoR in 1989 or 1988?

Senator NICKLES. 1988 and 1989.

Mr. BLOCH. It is about $8 million; $6 and $8 million in 1988 and 1989.

Senator NICKLES. And a half?

Mr. BLOCH. A total of $6 and $8 million, respectively.

Senator NICKLES. That is $6 million for 1988?

Mr. BLOCH. And $8 million for 1989.

Senator NICKLES. Thank you very much. I appreciate your coming to Oklahoma. I think you addressed quite a conference. Has the program had some success?

Mr. BLOCH. Yes; I think this has been one of the very successful programs. It has been in existence for a number of years, as you know. In fact, we are now in round three of the EPSCoR Program. I think for a number of the states, it has brought them up to a level where they can stand on their own feet and compete much better with the rest of the scientific institutions.

In particular, I was impressed with Oklahoma and with what this program has done for them. That is their testimony, not mine. That is what they mention I think because of the program, they have improved on their own efforts, research activities, as well as the education activities, instrumentation and equipment activities. As a consequence, they can afford to attract different people, different researchers, better researchers than before and I think it had a boot strap kind of effect on their whole operation.

Senator NICKLES. I would agree with that. I think also it encourages the state to do more, as well.

Mr. BLOCH. There is a need for it, and by the way, we are putting seed money into it. The state has to add to that, and the state, together with the university, has to plan out a program for themselves. We are not handing them a program. That is the best way of handling the situation.

SITING OF SCIENCE AND TECHNOLOGY CENTERS

Senator NICKLES. I would agree with that. The administration is proposing 10 to 15 science and technology centers?

Mr. BLOCH. Yes.

Senator NICKLES. What is the status of determining where those centers would go?

Mr. BLOCH. I can't tell you where the centers would go. I can only tell you the proposals come from about 48 states. We've received proposals for about 350 centers, so you can see that the ratio of centers to requests will be very small. There is no way of telling where the centers will wind up or—in fact, we discussed that earlier this morning—or what the subject matter will be.

We are going, right now, through a peer review of all the 350 proposals that we received late last year, and out of those, we will select the 12 to 15 best proposals.

Senator NICKLES. When will that decision be made?

Mr. BLOCH. The decision, hopefully, will be made around October. By that time, I hope we will know what our 1989 budget is. We didn't know that last year around that time.

FUNDING FOR SCIENCE AND TECHNOLOGY CENTERS

Senator NICKLES. I would echo that concern.

How much money are you looking at in each one of these centers as far as over a period of time?

Mr. BLOCH. Well, for each center, first of all, we are looking at a 5-year plan. Second, the centers will be funded somewhere in the range of $1 and $3 million per year. Obviously, it depends on the subject matter a great deal. It probably will be a lesser amount the first year because of buildup than it will be in the second and third year, but that is about the range that we are looking for.

GEOGRAPHIC DISTRIBUTION OF CENTERS

Senator NICKLES. And do you plan on geographically spreading these centers out throughout the country?

Mr. BLOCH. I was asked the same question earlier this morning by the chairman. The only point I can make to you is that in the past, when we had a program of this sort, like the engineering research centers, they were pretty well distributed. If you look at the distribution of the 14 engineering research centers, they are pretty well spread. Obviously, with 14 centers, there can't be one in every state. That is a mathematical impossibility. But if you look where they are, some of them are in the Midwest; one of them is in the South; some of them are on the east coast; some of them are on the west coast; some of them are in between. They are pretty well spread throughout.

SUPPORT FOR SUPERCOMPUTERS

Senator NICKLES. The Foundation also funded, I believe, or at least provided seed money for, supercomputer sites and facilities several years ago. Was that back in 1980 what?

Mr. BLOCH. It was 1985.

Senator NICKLES. Through 1985?

Mr. BLOCH. No; starting in 1985.

Senator NICKLES. Starting in 1985? Time flies, I guess. How many were funded, five or six?

Mr. BLOCH. Five.

ADVANCED SCIENTIFIC COMPUTING CENTERS

Senator NICKLES. Have those proven to be successful?

Mr. BLOCH. They have proven to be highly successful. Let me remind you why these centers were established in the first place. They were established because there was a realization that supercomputers are a new tool for all of the sciences and for engineering. At the time when this was first discussed, 1983–84, there was not a single supercomputer available to academic researchers anywhere in the United States; they were available in some foreign universities, for instance German universities and so forth, but not here.

Second, nobody could foresee that universities could fund these supercomputers by themselves, but there was a national requirement for it. Also, it was understood very well that supercomputers would develop very rapidly, as they always have. A start had to be made to make this new tool available for use in universities.

That is why the federal government through NSF established the five centers. These centers have been in operation for 2 to 3 years, depending on the center. Their computer time is subscribed to. They are providing thousands of researchers with access to supercomputers; something like 5,000 or 6,000 users in December, I guess.

I think the result is a different approach to science. At the same time, there have been a number of other supercomputer centers established by individual universities, either by themselves or in conjunction with the manufacturer or in conjunction with the states. As a consequence, other centers have sprung up, but they are all pretty much fully subscribed to in terms of their capability.

By the way, I should say that in the centers that we are supporting, from 40 to 60 percent of the dollars come either from the states, the manufacturers, or the universities themselves. So the Foundation and the federal government are not paying for the full support of these centers.

Senator NICKLES. If they are fully subscribed to and they are selling their time, what percentage of the cost does that pay for?

Mr. BLOCH. No; they are really not selling the time. They have the right to take 10 percent of the available time and sell that to defray some of their own costs. But most of the time is not charged to the users of the particular center. By the way, the users are not necessarily from that center or associated with that university. They could be anywhere in the country.

Senator NICKLES. Thank you very much.

Mr. Chairman, thank you.

GOLDEN FLEECE AWARD

Senator PROXMIRE. Mr. Bloch, you are requesting $5.7 million for psychobiology under your behavioral and neural sciences program, an increase of about 10 percent over your current budget. In 1984 NSF funded a proposal entitled, "Learning and Reproductive Behavior" for $58,000.

The funding of that proposal has just won the NSF a golden fleece award. The major focus of the research was studying the sexual behavior of Japanese quail. The beginnings of that work were supported by the National Institute of Mental Health's [NIMH] small grants program. A proposal to extend that initial research was then simultaneously submitted to both NIMH and NSF, and if this is continued, it will be a $200,000 program.

As the 2-year period comes to an end in early 1987, the principal investigator concurrently submitted the same proposal to both NSF and NIMH. This time, NIMH funded a continuation of the work. Without getting into a discussion of whether or not NSF or NIMH should be supporting the study of the sexual behavior of birds, please explain how, with the very important and different missions of NSF and NIMH, a series of proposals with the same focus first gets funding from NIMH, then NSF, and then back to NIMH.

Isn't it an exploitation of the position of our bureaucracy by eager and effective researchers who want to study the sex life of Japanese quails?

Mr. BLOCH. Perhaps, Dr. Kingsbury, Assistant Director for BBS, would like to answer that question. [Laughter.]

Dr. KINGSBURY. I have been looking forward to this for weeks. [Laughter.]

Senator PROXMIRE. I figured a man from Wisconsin would be safest answering it. [Laughter.]

Dr. KINGSBURY. I traveled through Wisconsin, if that will help. What you are pointing out is a situation that is not unique to the study of the sexual behavior of Japanese quail, but, in fact, it is not an uncommon situation in many of the life sciences. The life sciences in many cases have a wide range of activity that runs from basic to applied, and what one is seeing in the whole area is a transition between fundamental findings, which explore the basic properties of a biological system, and their eventual and potential application to human health.

USE OF JAPANESE QUAILS IN EXPERIMENTAL SYSTEMS

Senator PROXMIRE. That is what puzzles me, Doctor. I just cannot understand why the reproductive practices of Japanese quail have any real application to human beings. Why not study human beings?

Dr. KINGSBURY. There are a lot of things that we are really not in a very good position to do with human beings. We have very strict human use provisions. We have very strict ethical standards of what one can do. It is very difficult to put human beings in controlled environments.

Animal learning has been a basic tool throughout the history of the neuro sciences.

Senator PROXMIRE. I understand monkeys and rats that are fairly close, relatively close to human beings, but quails? Quails seem to be quite distant. In this case, for instance, I understand that the male quail would focus on a female quail with longing glances, and they focus for quite awhile, and it didn't matter whether the female quail was dead or alive. That does not really apply to the kind of activity that I have observed among human beings. [Laughter.]

Dr. KINGSBURY. I think that you are missing the point of how one tries to establish an experimental system. There are simply things that one cannot do in systems where you cannot control all of the variables. An investigator, regardless of whether one is studying the fundamental concepts of learning, the hormonal control of the nervous system or the kinetics of critical enzymes, looks at the theory and the fundamental principles to be examined and then chooses the system that allows them to approach those fundamental questions. We wouldn't study the control of tryptophan synthetose in the human brain, because we simply cannot get the material to study that enzyme activity.

Yet, one of the fundamental principles of gene regulation was established through the study of that enzyme in bacteria, because giant quantities of microorganisms were available. What we are seeing here is a similar kind of situation. This investigator chose the experimental system which would allow him to establish a truly sound experimental base, controllable and measurable. This wasn't a study of Japanese quail, it was a study of learning in a social context. It was a study in which he was capable of controlling all of the variables and looking at one or two variables that were of importance.

Senator PROXMIRE. I don't think it is relevant.

Dr. KINGSBURY. The relevant question is certainly debatable. The fact is that these animals have been very useful throughout the history of the study of mechanisms of learning to look at the balance of hormonal influences of learning. This particular bird, because of the genetic structure of the male, shows dramatically increased levels of hormones which are much easier to measure over a low base, something that cannot be done with experimental precision in humans and in rats. It has offered great insights into things like the hormonal control of the nervous system ultimately, that work led to some of the work on the risk control of the immune system.

Senator PROXMIRE. One reason I am skeptical is that the hormonal system differs that much; you wonder how you can apply whatever finding you make to human beings.

Dr. KINGSBURY. The same set of hormones over a lower background. What we are talking about is an experimental system that can be manipulated with great precision, and that is what we try to find.

FUNDING FOR A STUDY OF "MARKET MODELS IN BEHAVIORAL ECONOMICS"

Senator PROXMIRE. You are far more an expert on Japanese quail and their sexual habits than I am, but let me ask you about economics. You are requesting $32.6 million for social science and economic science, an increase of 8 percent above your current level of funding. Although your proposed economics element budget would be increased by a modest 2.8 percent, this program element will receive a total of almost $13 million.

I note that last year, you spent about $40,000 on a project titled, "Market Models in Behavioral Economics." Apparently, the research will attempt to use behavioral theory to explain certain puzzles such as: Why do individual investors find dividends attractive? Why are returns in January higher than other months? Do traders overreact to new information, and do stock prices exhibit excess volatility? I can see why the Securities and Exchange Commission or the New York Stock Exchange might find answers to those questions useful, but why is this work being funded by the National Science Foundation?

Mr. BLOCH. Do you want to answer that Dr. Moore?

Dr. MOORE. I will let you try for a minute.

Mr. BLOCH. I want to make a general comment and then turn it back to John. Economics is one of the very important sciences that we sponsor. We sponsor many activities in that particular area that require large data bases, and that require an infrastructure on which to do one's research.

The question in this particular proposal here has been studied in academic circumstances for a long time. Taken out of context, it is probably difficult to understand, but I think that you need to look at it within the total context of our economics program. There are many areas.

Maybe John wants to comment.

Senator PROXMIRE. Before John responds, it seems to me that this is the kind of thing that corporations must have spent millions and millions of dollars studying over the years and that there is a wide understanding of why dividends are attractive or unattractive, wise or unwise. I can't see that this would make any real contribution to better management or even better investment.

Mr. BLOCH. It could be that it has nothing to do with better management, but I think it has to do with understanding the dynamics of the marketplace. We need to have a better understanding of the origin of financial markets if we are going to create an appropriate set of regulations for those markets.

DUPLICATION OF EFFORT IN STUDYING FINANCIAL MARKETS

Senator PROXMIRE. I am chairman of the Senate Banking Committee. We have had all kinds of enormously detailed studies of this. The Securities and Exchange Commission made a study. The Commodity Futures Trading Commission made a very, very thorough, careful, and objective study. We had studies by the Federal Reserve Board, and now the administration has just recently called for another 90-day study. I think it is much too long. I think it is time to act instead of having these endless studies that don't seem to give us any information that gives us a basis for policy action.

I can't see anything here, as one of those who is in a position to influence policy action, that we could gain from this kind of study.

Dr. MOORE. Senator, I agree. We need to act. We need to take action on the basis of information that we have available to us at the time the decision is needed. There is no question about that. But we also need to improve our understanding of the basis. I don't think that we fully understand the underlying causes of what happened last fall.

Senator PROXMIRE. That may well be, but do you have people who are better qualified than the New York Stock Exchange, the Commodity Futures Trading Commission, the Chicago Board of Trade? These are the experts. They spend their lives working on this, and the studies are from so many different angles that it seems to me we are getting a reasonably competent expert group of people to make the study. I can't understand why $40,000 spent by the National Science Foundation for some kind of a study by someone who is not really involved in this is going to add anything to it.

Dr. MOORE. I think, Senator, you can say much the same thing about much of the basic research that is funded. We have a lot of experts in a lot of different fields that are bringing to bear on the current state of knowledge on current problems.

But we continue to try to push back the frontiers of knowledge to improve our understanding, and that is what is happening here. That is the NSF's role.

FUNDING OF SENIOR SALARY COSTS

Senator PROXMIRE. I note that you are funding another economics project that allows the investigator to continue research entitled, "Problems in Game Theory and Decision Theory and Their Economic Applications." Apparently this work has to do with game theory, ethics, and inductive logic. I freely admit that I find it difficult to understand the purpose or the content of the research, but I was interested to note that most of this $70,000 grant was for the salary and fringe benefits of one professor plus the indirect costs associated with that salary, although $3,870 is being paid for travel and $3,645 is for supplies and publication costs.

Furthermore, the individual is being paid $40,000 for 4 months' work. That works out to about $120,000 a year. I am curious as to why this kind of work wouldn't be done with or without federal support. I thought academics had to publish or perish. I would also like to know if a $120,000 per year salary is common in the academic community.

Dr. MOORE. I can turn it over to Dr. Kingsbury for a detailed answer, but I will make one remark that I think is of general importance, that is that academic salaries have been climbing very, very rapidly in recent years, as I think you know.

The amounts that are being paid now in certain fields are much higher than people realize. I have to say that economics is one of those fields. I brought with me the 1987–88 faculty salary survey carried out on behalf of the National Association of State Universities and Land-Grant Colleges, which surveys salaries in a number of disciplines and subdisciplines.

Senator PROXMIRE. Did it indicate what percentage of the economics professors are getting more than $120,000 a year?

Dr. MOORE. It doesn't tell a percentage, but it does have, Senator, the range of salaries of a number of different fields. Let me make two qualifying points. What I am about to give you is a 9-month salary, and it is in a state university, so it does not include any of the private universities with which we do a lot of business, as you know. But the high salary reported for professors of economics in this area was $106,000. That is a 9-month salary.

If one converts that to a 12-month basis, of course, you add about 25 percent to it. So the amount of money is really very large, and that salary that you remarked on here is not inconsistent with that particular finding.

Senator PROXMIRE. Maybe this explains one of the reasons why I have decided to retire and I am going to write and teach. [Laughter.]

SOCIOLOGY OF CORPORATE DEVELOPMENT

Let me turn to your sociology research budget. You are requesting $4.3 million in fiscal year 1989, an increase of $500,000, or 13 percent, above your current budget.

In January 1986, you awarded about $40,000 for an 18-month study of why corporations became the dominant form of organization in every major industry in the early part of the century. My lawyer friends tell me that this probably resulted from the passage of lenient incorporation law by the state of Delaware combined with a natural desire by business owners to place a limit on their personal liability.

Your researchers' attempt to look at class-related motives as well as cultural and noneconomic variables seems to be a rather tortured attempt to find a noneconomic rationale. Why did you decide to devote $40,000 to that work?

Dr. KINGSBURY. You have just pointed out one of the principle theories that has been believed to be the truth behind the reasons for a corporation. However, from the study of the sociology of the corporation or sociology of business, it is not at all clear that that explanation is true. In fact, we see today that partnerships are just now starting to incorporate for reasons that are not as simple as that one you had indicated. I can think of partnerships that have been in existence for 100 years but only today are undergoing incorporation.

Senator PROXMIRE. Can I interrupt you for a second? This study is not concerned with small businesses, small partnerships, or small corporations, I should say. It is an 18-month study of why corporations become the dominant form of organization, dominant form of organization in every major industry in the early part of the century.

Dr. KINGSBURY. The dominant form of organization, in a sense, means the largest number in terms of the economic impact, not necessarily the largest corporations. There are a number of social factors within a corporation that lead to any given structure, and that is what these people are trying to look at. It is an examination of an alternative theory as to the behavior of corporations and decisionmaking within corporations. This is, as you will recall, and as you pointed out, one of the major thrusts of the study.

Senator PROXMIRE. Doctor, as I understand it, this is a study concentrating in the early part of the century.

Dr. KINGSBURY. That is correct.

Senator PROXMIRE. Not any recent development as you referred to, but the early part of the century, before 1920, or so.

Dr. KINGSBURY. That is right. What we are really talking about are not necessarily competing, but alternative theories as to the behavior of a corporation.

The total explanation is not necessarily that of simply covering your liability. It is not necessarily the formal explanation that is available.

Senator PROXMIRE. We are concerned.

Dr. KINGSBURY. We are simply asking what alternatives there are.

Senator PROXMIRE. There is a period that went from 1890 to 1915. So it is not any concern about recent developments, but what took place at the end of about 70 years ago.

Dr. KINGSBURY. Yes. The question is simply, as I said, a description of a theoretical explanation for why companies changed their structure at that time; why companies, who were operating at that time as individual proprietors or as partnerships, whatever structure they had, adhered to the incorporation laws.

Senator PROXMIRE. Do you have a final report on that project?

Dr. KINGSBURY. I do not have the final report in hand, so I have not looked at it.

Mr. BLOCH. By the way, the salary attached to the principal investigator on this particular proposal is a lot lower than the salary that you mentioned before.

Senator PROXMIRE. That is good to hear.

FUNDING FOR POLITICAL SCIENCE

You are requesting $3.95 million for political science in 1989. That is an increase of $150,000 over your fiscal 1988 request. Some of your past awards in this area indicate to me that you might be able to find some savings here to balance increased support for areas of higher priority. Let me give you some examples.

You have denoted $57,997 to study the behavior of legislators. According to the grant sheet, and I quote:

> The key contribution of this research lies in its systematic attention to changes over the course of congressional careers rather than congressional behavior in a given period or at a single point in time.

There is an industry in town, Mr. Bloch, as you know, called lobbying that spends literally millions of dollars trying to understand and influence the behavior of legislators. Don't you think this type of research is overkill?

Mr. BLOCH. I do not think this is quite the same approach that you ascribed to lobbyists.

I think it is trying to understand a little better the behavior of legislators and what new entries and new facts really do influence the way that legislators perform. I think that political science is probably a good thing to understand.

Senator PROXMIRE. One of the new and most dramatic influences, of course, is the tremendous growth of money in politics, the enormous contributions.

The fact that the average winning Senator in the last two or three elections has spent $3 million. This has had a profound effect on congressional behavior.

But there is another thing mentioned here about Ph.D.'s and studying Ph.D.'s I think it is the kind of thing you probably ought to stay away from.

Mr. BLOCH. Maybe next year we will do something like that.

Senator PROXMIRE. In this area and in other areas, there are so many excellent articles being written and studies being made by newspapers and various services. I just wonder if it is necessary for the National Science Foundation to get involved in it.

Mr. BLOCH. In all of these things that you are citing, let me point out another fact. There is a discipline called political science. There is a discipline called economics. There are graduate students coming up through the system. The education of these graduate students is advanced by involvement with grants. That is also a benefit to the universities.

STUDY OF LEGISLATORS' CENTERS

Senator PROXMIRE. It may not only be necessary to society. I just wonder if it is necessary to fund those. The undergraduates tend to be fascinated by legislative behavior. They are going to study it anyway. Another $60,000 political science study is titled, "Dynamic Analysis of Rollcall Voting." This award will provide data that will permit the investigator to speak to a set of theoretically defined issues concerning the impact of large-scale political and social phenomena on behavior in Congress. Where are you going with this kind of research?

Dr. KINGSBURY. The point of both of these was to allow political scientists to examine the dynamic functioning of our political system. What are really the influences? We sit here in Washington and we, and you know better than most of us, perhaps, but we assume that we understand all of the factors that influence a given set of events. But it is very difficult over a long period of time to continue to see the give and take and ebb and flow of political ideas and political behavior. We don't always follow the consistency of a legislator throughout his or her long-term career unless they happen to be running for President and we are interested in whether they changed their mind at some point.

The point of this kind of work is to understand how legislators who have come to Washington have changed their viewpoint over a long period of time. The longer they are in Washington, the less time they spend in their home district, the more they become national in scope, the more they, over a period of time, gain seniority and make different decisions on different bases.

Those are important issues for the structure of the political system. That is what political science is really in business to make some sense out of. I think it is quite different than the applied sociology of legislator interactions that are studied by the lobbyists. Their goals are quite different. They are not interested in understanding the system; they are interested in using it. That is why they are here. The political scientist is interested in understanding the dynamic functioning of the political system.

Senator PROXMIRE. This is exciting and interesting work. It is being done anyway. We have the Congressional Quarterly, with which I am sure you are familiar. It is an excellent publication that does or did exclusively that. Every week they come out with what I think is top-flight work. The New York Times comes out every day with studies in this area; the Washington Post, the Wall Street Journal. It seems to me we have a great deal of this going on anyway without paying thousands of dollars for it.

FUNDING FOR ENGINEERING RESEARCH

Mr. Bloch, in a recent Washington Post article, you cited congressional budget cutting as an indication of "* * * the public and Congress do not agree with you that the investment in science and engineering research and education is central to the nation's economic future." According to a recent NSF study, in 1982 the United States spent 53.6 percent of its science and engineering budget on life sciences research while only 14.1 percent went to engineering research.

What progress has been made in recent years to distribute funding more evenly between the disciplines?

Mr. BLOCH. True enough, most engineering research is funded by the Engineering Directorate but some engineering funding is being done by some of the other directorates and through some of the other programs.

One example I want to cite, in particular, is graduate fellowships. Graduate fellowships are funded out of a central pot in the Science and Engineering Education Directorate. A lot of the graduate fellowships are going to engineering.

Engineering has gotten a consistent and, over the last 4 or 5 years, the biggest increase in the National Science Foundation. Even in a tough year like 1988, it received a 5.2-percent increase, whereas everybody else got approximately a 2- or 3-percent increase.

Within the directorate, we have funded the engineering research centers, which have gotten a large amount of money. We have allocated 50 percent of the positions in the Presidential Young Investigator Program to engineering because the faculty situation in engineering was worse than in any of the other sciences.

So I think over the last 5 or 6 years you can see a significant increase in engineering funding. It won't show up very much in the percent allocation because of the low level from which engineering started.

CENTER FOR HAZARDOUS SUBSTANCE CONTROL

Senator PROXMIRE. Let me get into that, specifically. You are requesting an increase of about $7 million for engineering research centers and industry/university cooperative research centers. Your total proposed budget for these centers is $43 million. I would like to take a look at a specific engineering research center grant of $2 million to fund 12 months of work at an engineering research center for hazardous substance control.

Research at the center will, and I quote, "* * * include studies of emerging and future technologies for the control of hazardous substances as well as strategies for managing and remediating sites already contaminated with hazardous substances."

The Environmental Protection Agency will spend $58 million on research into techniques for cleaning up existing hazardous waste sites, another $44.7 million on general hazardous waste prevention and control, and $5 million for hazardous waste research centers. Can you tell me why the EPA is not funding this center?

Mr. BLOCH. Yes; I can tell you exactly: Because they are not putting any money into it, although we have asked them. That is not a snide remark, and I apologize for it. It was not meant that way.

We asked them to participate in that center, and they did not.

Senator PROXMIRE. Can you tell me why they refused to do so?

Mr. BLOCH. Do you want my opinion?

Senator PROXMIRE. I want their opinion.

Mr. BLOCH. I do not know. They probably said they do not have enough money. I think it is shortsighted, but that is my opinion.

Senator PROXMIRE. It was a lower priority to them.

Mr. BLOCH. I think research, basic research is a lower priority to them; you are absolutely right. I think in this very important area of hazardous substance control and waste disposal where we have major problems, we need to put in place a better engineering understanding of the fundamentals. That is what the center is all about.

We have to make sure that some of these techniques and principles are being taught in undergraduate education. That is another thing that the center is trying to accomplish; namely, to make sure that our undergraduate curriculum is being updated. We need to attract some graduate students to this field of study. Hazardous substances are going to be with us for centuries and it is a problem that the academic community has not taken very seriously. It should have taken it very seriously a few years ago.

This is one of those proposals that came in to us from the community. In fact, we had two or three such proposals. It made the grade in terms of the quality of the proposal; it is a necessary area of study, and I think it will pay off greatly in the future. I think our money is well spent. I would have liked to see EPA put additional money into it.

Senator PROXMIRE. You have made a very strong response. EPA is also under the jurisdiction of this subcommittee. We intend to question them. They have not come up yet. We will, if you want to supplement what you just told me for the record so we can have your full response, we will use that.

Mr. BLOCH. It is not too late, by the way. We will still let them into the funding. [Laughter.]

PRINCIPAL INVESTIGATOR SALARIES AT ENGINEERING RESEARCH CENTERS

Senator PROXMIRE. The three principal investigators associated with the research center are being paid at the rate of $133,000, $128,000, and $119,000 a year. How do you justify such high salaries for three investigators at one facility?

Mr. BLOCH. I do not justify the salary. It is what that particular university is paying those researchers today, with or without NSF support. It is the going rate in engineering. If you look at the report that Dr. Moore mentioned before, you see that in some of the engineering fields $123,000 for 9 months' salary is not that out of the ordinary. It is on the high side, no doubt about it, but it is not out of the ordinary.

The problem is the following: Industry pays a certain amount of salary, and universities, even state universities, have to compete with industry to attract and to keep these researchers. We have a similar problem at the Foundation.

Senator PROXMIRE. One of the problems for me is that this is in the context of a project which is of such low priority that EPA won't do it, won't go ahead with it, and we have, as I say, researchers who are getting from $120,000 to $140,000 a year to investigate them.

Mr. BLOCH. I do not think EPA will say that it is a low-priority project.

Senator PROXMIRE. It is lower than they want to spend money on.

Mr. BLOCH. They are going to say they don't want to spend any money on it. That doesn't mean it is a lower priority.

BUDGETARY COSTS FOR THE CENTER FOR HAZARDOUS SUBSTANCE CONTROL

Senator PROXMIRE. That is what I mean by lower priority. The center has budgeted $100,000 for publications costs and page charges in connection with this subject. This would pay for 2,000 pages of scientific articles and referee journals at $50 a page, or 2 million xerox pages at 5 cents a page. Can you give us any idea of how the center plans to spend that money?

Mr. BLOCH. No; I can't.

Dr. HALL. There is an error in the budget page on that line. The figure of $100,000 should have been on the line above.

Mr. BLOCH. On the materials and supplies?

Dr. HALL. It does have the correction, excuse me.

Senator PROXMIRE. How much is being spent? The $100,000 is wrong? Is it $10,000?

Dr. HALL. The $100,000 is right for materials and supplies. In addition to that, there is telephone, mail, et cetera.

Senator PROXMIRE. Do you want to give me a response? You can give me a response for the record.

[The information follows:]

ENGINEERING RESEARCH CENTER FOR HAZARDOUS SUBSTANCE CONTROL

Breakdown of an estimated budget of $100,000 for supplies and materials:

Materials and supplies for 18 senior research personnel: 3 postdoctoral support, 24 graduate students, 12 undergraduates, and ERC administration office staff.

Analytical services: Infrared/ultraviolet, electronmicrograph, electron scattering, mass spectroscopy, and nuclear magnetic resonance.

Engineering shop supplies for fabrication of combustor, laser diagnostics, et cetera.

Mr. BLOCH. We should look into that.

Senator PROXMIRE. The center will receive $180,000 for unspecified new equipment to support faculty research projects for which the level of funding has not yet been determined. Do you have any control over how that money is spent?

Mr. BLOCH. We have control inasmuch as we see their plans on how they want to spend their money, and then we can either agree with that or not. That is the control we have.

ECONOMIC ANALYSIS OF HAZARDOUS SUBSTANCE CONTROL

Senator PROXMIRE. I notice that the Hazardous Substance Control Center's budget includes $100,000 for an economic study. What is that all about?

Dr. HALL. One of the objectives of the center is waste utilization. There are several fields interested in waste utilization: the chemical industries, the mechanical industries, electrical, and medical industries. Various approaches are being considered to minimize the waste. The projected costs and benefits of various systems for minimizing waste in the manufacturing process must be studied before a major effort is made in any one of these.

Dr. GOOD. I would like to make one comment about the hazardous waste center, very quickly.

Senator PROXMIRE. Yes, ma'am.

Dr. GOOD. Coming from one of those companies which has a major interest in hazardous waste sites and their cleanup, one of our real problems is that there is a lot of new technology today in the chemical and chemical engineering industries. It has been almost totally ignored by the folks who are working in the hazardous waste area. The difficulty is that the hazardous waste area, up to now, has been a garbage industry, and garbage industries do not spend money on technology development.

There are many better ways to handle these materials today, and one of the difficulties is that even the EPA regulations for it don't include any of that new technology. One of the things we would like to see more than anything is the ability to utilize quality up-to-date technology to handle some of these hazardous waste systems. We hope this center is going to do this, and we hope they do it well, because it is very difficult for us to hire engineers who have training in this area.

Again, the hazardous waste business has been a garbage business. The idea of getting a quality engineer interested in that and willing to put good technology into it could very well be, Senator, the best investment that we could make. I am not going to attempt to justify the issues on salaries and things like that. But what I am saying is that if this center can do this, it could be the most important one we have.

EMPLOYMENT OF WOMEN AND MINORITIES

Senator PROXMIRE. Thank you very much. That is a fine response. I would like to discuss the agency's record of providing employment opportunities for women and minorities. Last year you reported that only 24.7 percent of jobs at the GS–12 and above level were held by women. I am disappointed with this low percentage and am curious as to the current percentage of women holding jobs at the GS–12 and above level.

Mr. BLOCH. Twenty-six percent.

Senator PROXMIRE. Twenty-six percent, is it?

Dr. MOORE. That is right.

Senator PROXMIRE. That is an improvement, but it is a very, very small improvement.

Mr. BLOCH. It is slow progress. Don't think for a minute that we are not focusing on this particular problem. It is a difficult problem to attract people to these positions, No. 1, and also to keep them in these positions. We are losing a number of people even as we get new people in; we are losing people all the time. They go to other agencies or leave the government or what-have-you. So there is a continuous dynamic flow in this situation. That is what we are up against.

Senator PROXMIRE. Is it any different for women than for men in the outfall?

Mr. BLOCH. No; but we have got more men, so you don't ask that question.

Senator PROXMIRE. Then I would think that would make it easier. Let the men flow out and you replace them with women.

Mr. BLOCH. If you find qualified women for these jobs.

Senator PROXMIRE. In 1986, 12.5 percent of the GS-12 and above positions were held by minorities, and only 4.4 percent of those positions were held by minority women.

Has your record changed in this area since last year?

Mr. BLOCH. I think it has changed, and we can supply you with the exact data. Do you have it there?

[The information follows:]

EQUAL EMPLOYMENT OPPORTUNITY

The percent of jobs GS-12 and above that have been held by women for the past 3 years is as follows:

POSITIONS GRADE 12 AND ABOVE

[In percent]

Year	Held by— Women	Held by— White women	Held by— Minority women
1985	22.8	18.8	4.0
1986	24.7	20.3	4.4
1987	26.0	21.3	4.6

The percent of jobs GS-12 and above that have been held by minorities in the past 3 years is as follows:

POSITIONS GRADE 12 AND ABOVE

[In percent]

Year	Held by— Minorities	Held by— Minority men	Held by— Minority women
1985	11.4	7.4	4.0
1986	12.5	8.1	4.4
1987	12.6	8.0	4.6

ACTIONS TO INCREASE THE EMPLOYMENT OF WOMEN AND MINORITIES

Senator PROXMIRE. Is it a small amount? Specifically, can you tell us what you have done to try to draw more into the agency?

Mr. BLOCH. First of all, we have focused every directorate on this particular problem. It really has to start at the bottom with every directorate. We just went through this duet the last few weeks. We have reviewed all the positions, clerical positions as well as professional positions, to see what constitutes a good program for that particular division.

The divisions must fill out a plan every year in which they detail what kind of openings they foresee and what they are going to do in terms of minority and women hiring. They are being measured against these goals. Sometimes we reach them; sometimes we don't. So, we are really starting that process right at the bottom of the Foundation, and we are working it all the way up.

Senator PROXMIRE. In your job search, do you specify that you, as much as you can—and I realize your limitations on this, and I am not talking about reverse discrimination—but do you try to have your recruiters understand the importance of giving minorities and women more opportunity than they have had in the past?

Mr. BLOCH. Absolutely.

Senator PROXMIRE. You indicated in last year's hearing record that, and I quote, "The Foundation has a long-range goal to eliminate underrepresentation and underutilization of all groups in all job categories. We are continuing to encourage and to accelerate, where possible, increased participation of women and minorities in those parts of the work force where they are underrepresented." Can you tell us in specific terms how you are encouraging and accelerating increased participation of women and minorities and how successful those efforts have been?

Mr. BLOCH. I just went through that. We are asking that question at least once or twice a year. In putting our plan together, we ask what the participation is of minorities and women as it exists, as well as what the plans are for the future. Then we try to hold the divisions to those plans or to those projections.

EQUAL OPPORTUNITY IN NSF PROGRAMS

Senator PROXMIRE. For instance, when you have a contract with a university or a foundation or whatever, do you make any mention or any reference at all to the desire to give minorities and women opportunities?

Mr. BLOCH. All of our solicitations have that clause in them.

Senator PROXMIRE. It has it in them?

Mr. BLOCH. Absolutely. Not only that. As you know, we have some specific programs aimed at minority and women participation in the sciences and engineering, and they are focusing very heavily on exactly that problem.

FISCAL YEAR 1989 PLANS FOR ADDRESSING EQUAL OPPORTUNITY IN SCIENCE

Senator PROXMIRE. Any other specific efforts you have planned for fiscal year 1989 to help in this regard?

Mr. BLOCH. First of all, we have a number of new programs that are addressing minority participation. In addition, as I said before, all solicitations make mention of that.

In addition to that, we have been focusing very heavily on the participation of minorities and women, with mixed success I should say, in our various advisory and evaluation committees, advisory panels, and on our committees and individuals that evaluate and participate in the peer review process we want to attract more people to it, give them some education in it, and also make sure that through their participation, we have a more equitable representation. So we have been focusing on all of this.

The Board—and Dr. Good can talk about it—has spent untold hours on this particular subject, reviewing our programs, making sure that we are doing the right things, trying to understand better what the cause of nonparticipation is and what can be done in order to improve it. Maybe Dr. Good would like to comment on that.

Dr. GOOD. On the question of women coming into the scientific arena, we actually have, since about 1975, begun to make rather good progress. For example, in engineering, it went up from a number so small you couldn't measure it to 10 percent, and better in 1985 and 1986. The same thing happened in sciences, in particular, the hard sciences: chemistry, physics, mathematics. What has happened over the last 1½ or 2 years is something we do not understand. That increase has now leveled off and we are in the process of trying to understand that.

Something has happened in the last 2 years to shut down those gains. We are still getting the increased percentage, but it is not increasing further.

Senator PROXMIRE. Maybe this goes back to the education situation.

Dr. GOOD. I think actually, Senator, it does.

ASIAN PARTICIPATION IN SCIENCE AND ENGINEERING

Senator PROXMIRE. That will take a long time, but it seems to me that it is most fundamental to do your best to hire minorities and to give them priority. From what I have heard, the Asiatics, they are a minority; they have come on very strong.

Dr. GOOD. They are enormously successful in science and engineering.

Senator PROXMIRE. If we can encourage them, maybe they would be a good model for the rest.

MINORITY PARTICIPATION IN SCIENCE AND ENGINEERING

Dr. GOOD. We need to look at that. In the case of minorities, the situation isn't as good as it is with women, as you know.

Senator PROXMIRE. Pardon me?

Dr. GOOD. With respect to minorities, blacks and Hispanics, our success rate for getting them into the sciences and engineering is lower, than it has been with women. We have just not been very successful in getting an adequate number of those people interested. The committee for the Board has set two priorities for 1988: How do we assess the programs we have done in the past and find out which ones had some successful attributes; and how do we call on those? How do we utilize the small amount of money we have to try to make that go?

The thing that really concerns us is the following, sir. If you look at the demography of the student body in kindergarten through 12th grade in the year 2000, what we now consider to be minorities will be majority in number. We have an extraordinarily difficult problem in this country in science and technology if we cannot get a larger piece of that fraction. We are doing very poorly, and we have to be able to do better.

Senator PROXMIRE. That is a very good point. Your presence and the presence of two out of the five people at the table here who are, presumably, ladies, I think that is very encouraging. It speaks well.

Mr. BLOCH. Can I just make, before you leave the subject, one more point? Between 1986 and 1987 in this year, our total employment at the Foundation has been up 3.5 percent, but our minority employment has been up 9 percent. Our female employment has been up 6 percent.

SALARIES OF NSF EMPLOYEES

Senator PROXMIRE. You submitted data for last year's hearing record that indicate the median salary for white men in 1986 was $64,456, but the median salary for minority women was only $19,600. That is a striking difference. The median salary for men in professional positions is $66,000 compared to $52,000 for professional women. This means that professional women earn only 74 percent of what their male counterparts earn. Can you tell us what you are doing to make that situation more equitable?

Mr. BLOCH. Yes; we have been looking at that situation for the last 6 months. It is because of the size of the employment pools, and because of the size of the pools in the various grades, you can't average the numbers together. You really have to go in there and look almost one-by-one, name-by-name, and we have done that.

It has to do with the length of employment and with the length of time since the BS degree or Ph.D. degree, whatever the case might be. It has to do with experience before coming into the Foundation. In every case where we have taken an individual, female or minority, and compared it to its equivalent male white average, we have found that we have no difference in salary between the two. We are really alert to that particular problem.

It is not something which you can handle statistically. You can only handle it on a name-by-name basis. I would be glad to go through that with you on a name-by-name basis. But we have convinced ourselves that we have not had a problem. There were a couple of latent things that weren't quite right which we obviously fixed, but in general, it has to do with history; by history I mean experience. It has to do with experience, with background, with length of service and things of this sort, not with discrimination.

Senator PROXMIRE. I want to thank you, Ms. Toye, Director Bloch, Dr. Good, Dr. Moore, for your excellent testimony. It has been very helpful.

SUBMITTED QUESTIONS

[The following questions were not asked at the hearing but were submitted to the Foundation subsequent to the hearing for printing in the record:]

QUESTIONS SUBMITTED BY SENATOR PROXMIRE

NEW TELESCOPE TECHNOLOGY

Question. You are requesting $90 million for astronomical sciences in 1989, an increase of 4.7 percent above your current budget. In last year's hearing with the House you discussed research into new telescope technology. In fiscal 1987 you spent $2.5 million on this research. Can you tell us how much you plan to spend in 1988 and 1989?

Answer. In FY 1987, the National Optical Astronomy Observatories allocated $2.0M to new telescope technology. The current plan level is $1.7M for these activities in FY 1988. Present plans are to support this work at about $2.0M in FY 1989.

Question. Mr. Nicholson told the House last year that the total cost of a new advanced technology telescope could be as high as $90 million. What is the latest cost estimate for such a telescope?

Answer. The present estimates for an 8-meter telescope based on lightweight mirror technology are between $30M and $50M. U.S. projections for larger telescopes are in the range of $100M to $200M for a 16-meter equivalent aperture optical telescope. A consortium of European nations recently committed 380 million DM ($230M) to construct the Very Large Telescope (VLT). The VLT will be the world's largest optical telescope and will consist of four 8-meter telescopes in a linear array.

VERY LONG BASELINE ARRAY

Question. In 1987 funding for the Very Long Baseline Array (VLBA) was increased by $2 million to $11.4 million. Mr. Nicholson told the House subcommittee last year that as a result of the increase you were projecting a total cost for the project of $75.6 million, in 1987 dollars. Has this estimate changed?

Answer. Not significantly.

Question. You told the House that you planned to purchase two antennae each year in fiscal 1987, 1988, and 1989. Is this plan proceeding according to schedule?

Answer. Yes.

Question. Last year you estimated $11.9 million for VLBA construction in fiscal 1988, yet I see on page MPS-17 of your justifications that you plan to spend only $11.6 million. Although you cut costs in this program, you are still projecting completion in the year 1993. Does this mean that you are achieving cost savings in VLBA, and if so, can you tell us how you achieved those savings?

Answer. The reduction by $300K in FY 1988 was achieved by delaying procurement of equipment (such as electronics), not by cost savings.

CORNELL ELECTRONIC STORAGE RING

Question. You told the House Subcommittee last year, Mr. Nicholson, that finishing the Cornell Electronic Storage Ring (CESR) was a high priority, and that stretching these projects out costs taxpayers more money. I note on page MPS-20 of your justifications the CESR upgrade will continue at a slower pace than planned. If a stretch-out will cost more money in the long run, isn't this being penny-wise and pound foolish?

Answer. For the reasons you suggest, we decided to continue the Cornell construction at almost the full amount in FY 88 viz. $9.9 million instead of the planned $10.9 million. We plan to make the remaining $1.0 million available in FY 89. We have discussed this with the Director of CESR, Dr. Berkelman, and he agreed that this plan would not cause any significant delay or cost overrun on the CESR upgrade project.

Question. When do you expect to finish the CESR project?

Answer. The CESR construction project will be completed in FY 89.

CHEMISTRY

Question. You are requesting $99.2 million for your chemistry subactivity in 1989, an increase of 5.2% over your current budget. Within the chemistry area the only program element which showed substantial growth last year was Special Projects, up 28% from 1987. This year you are requesting a 31.8% increase in this element. In your justification it appears as if the activities listed for increases in this area are Materials Chemistry (+1.9 million), Chemistry of Life Processes (+1.0 million), Post-doctoral fellowships in Chemistry (+1.5 million), and Research Experiences for Undergraduates (+500,000), but those increases exceed the $2.9 million increase proposed for special projects by $2 million. Can you tell us where you plan to make offsetting reductions in the Special Projects program element?

Answer. A summary of the 1989 incremental budget changes by Program Element follows.

Requested Increment*	Office of Special Projects	Disciplinary Programs	Instrumentation Program	Net Change Chemistry Subactivity
Chemistry of of Life Processes	+1.0			+1.0
Materials Chemistry	+1.9			+1.9
Postdoctoral Fellowships	(-0.5)	+2.0		+1.5
Research Exp. for Undergrads	+0.5			+0.5
Instrument Operns/Maint			+0.5	+0.5
Disciplinary Projects		(-0.5)		(-0.5)
Net Change	+2.9	+1.5	+0.5	+4.9

*Dollars in Millions

The 1989 budget shows a +$2.9 million increment for Special Projects. This reflects, as correctly deduced in the question, increments of +$1.0 million for Chemistry of Life Processes, +$1.9 million for Materials Chemistry, and +$500,000 for the Research Experiences for Undergraduates program. There is an offsetting reduction of $500,000 in the Special Projects Office resulting from redistribution of the cost for Postdoctoral Fellowships in Chemistry to the four disciplinary programs (Analytical and Surface; Organic and Macromolecular; Physical; Inorganic, Bioinorganic and Organometallic).

The Postdoctoral Fellowship Program, funded at $500,000 in Special Projects in 1988, will be funded from disciplinary programs at $2 million in 1989. The 1988 base amount is redistributed from Special Projects to the four above-mentioned disciplinary programs. Another +$1.5 million of new funds is also requested for distribution among the four disciplinary programs. However, the net growth in these four programs is only +$1.5 million because of selective reductions totalling $500,000 in ongoing disciplinary projects of lower priority.

There is an increment of +$500,000 for instrument operations and maintenance in the Chemical Instrumentation Program. This is derived from the offsetting reductions of the same amount in the four disciplinary programs. The requested increments ($2.9M in Special

Projects, $1.5M for postdoctoral fellowships in disciplinary programs, and $0.5M in the Instrumentation Program) thus total the $4.9 million additional requested by Chemistry.

MATERIALS RESEARCH -- INSTRUMENTATION

Question. You are requesting $118.9 million for materials research in 1989, an increase of $8 million over your current budget. Last year you requested an increase of almost 8% for Instrumentation for Materials Research, but ended up cutting that budget by almost 20% below the 1987 level. This year you are requesting a 12.5% increase for instrumentation, but will continue to fund the program significantly below the 1987 level.

Could you explain the rationale of the 1988 instrumentation cut, followed by a proposed large percentage increase in 1989?

Answer. The Division provides support for instrumentation through all its funding modes. Total support for instrumentation in FY 87 stood at about 16% of the Division's budget. The 7.3% reduction in the Division's FY 88 Budget Request led to a reduction in the budget for the Instrumentation for Materials Research Program in favor of support for people. Although the requested FY 89 budget for this program is still below the FY 87 level, the shortfall will be approximately made up by increases for support of major instrumentation through the Materials Research Laboratories and Materials Research Groups Programs. Also, the FY 89 Request will provide some enhanced support for instrumentation for individual investigator research.

MATERIALS RESEARCH -- SUPERCONDUCTIVITY

Question. On page MPS - 30 of your justifications you state: "Support for fundamental research in superconductivity will be increased at a reduced level." Can you tell us what that means in terms of dollars devoted to superconductivity research?

Answer. Please see the following table for estimates of NSF support for superconductivity. The Division of Materials Research plans to provide in FY 88 approximately $12.6 million for superconductivity research, representing an increase of about $3.0 million over FY 87.

Research in all Superconductivity

($ millions)	FY 86	FY 87	FY 88	FY 89
	(Estimates)			
NSF - Div. of Material Research				
Low Temperature Physics	1.8	2.3	2.6	2.9
Solid State Physics	0.7	1.0	1.0	1.2
Solid State Chemistry	0.1	0.2	0.2	0.2
Condensed Matter Theory	0.8	1.0	1.8	1.8
Total Condensed Matter Sciences	3.3	4.5	5.6	6.1
Total Metallurgy, Polymers & Ceramics	0.5	0.6	0.9	1.4
Materials Research Labs	0.0	2.0	3.5	4.0
National Magnet Lab	1.5	2.0	2.5	2.5
Instrumentation	0.4	0.6	0.1	0.6
Division of Materials Research	5.7	9.6	12.6	14.5
Division of Chemistry	0.1	0.3	0.5	0.8
Division of Physics	2.2	2.4	2.5	2.5
Engineering Directorate	0.1	1.3	1.9	2.2
EPSCOR	0.0	0.1	0.1	0.1
Total NSF	8.1	13.7	17.5	20.1

HIGH Temperature Superconductivity Support

($ millions)	FY 86	FY 87	FY 88	FY 89
Division of Materials Research		8.0	10.0	12.0
Division of Chemistry		0.3	0.4	0.6
Division of Physics		2.2	2.3	2.4
Engineering		1.2	1.8	2.2
Total NSF		11.7	14.5	17.2

Federal Support for Superconducting Materials Research

($ millions)	FY 86	FY 87	FY 88	FY 89
NSF	0.0	0.0	0.0	0.0
DOE	9.2	17.9	24.1	24.0
DOD	6.8	20.6	39.0	42.4
NBS	0.5	1.1	2.8	3.0
DOT	0.1	0.1	0.3	0.3
NASA	0.5	0.8	3.7	4.0
	17.1	40.5	69.9	73.7

It is to be noted that a significant shift of resources toward research in superconductivity is occurring, at the expense of support for other areas of materials research. It is mainly the result of investigators redirecting their existing research efforts toward superconductivity.

Question. You ended up cutting solid state physics slightly in 1988 after requesting an increase of 9 percent. On the other hand you requested an increase of 11 percent for ceramics and electronic materials and ended up allocating an increase of 19 percent to that program element.

Now we have been criticized for cutting your solid state physics budget but it seems to me that it might have been cut below your initial estimate, even if we had provided your full request, so that you could augment your request for ceramics and electronic materials. Am I correct?

Answer. The allocation strategy of the Division of Materials Research has to take into account the relative importance and needs of many sub-areas of the field. Therefore there is not a one-on-one relationship between the reduction (compared to FY 87 Actual) in the Solid State Physics Program and the increase (compared to the FY 88 Request) for the Ceramics and Electronic Materials Program.

Question. Can you tell us your rationale for making a cut below the 1987 level of support for solid state physics and applying more funds to ceramics and electronic materials than you originally intended?

Answer. The impact of the strong response by the research community to the Materials Processing and Materials Chemistry Initiatives on the Ceramics and Electronic Materials Program was much greater than anticipated when the FY 88 Budget Request was prepared. The increase in the Ceramics and Electronic Materials Program reflects the increasing scientific activity, importance, and needs of these areas of materials research. Enhanced support is needed to improve the technological position of the U.S. in ceramics and electronic materials.

NSF - SUPERCONDUCTIVITY

Question. The National Academy's Research Briefings, 1987, called for a national program to exploit high-temperature superconductivity advances. One specific recommendation was the establishment of an interagency mechanism to help coordinate planning for superconductivity programs among the various federal agencies. Are you working with other agencies to implement this recommendation?

Answer. NSF is participating fully in the Superconducting Materials Subcommittee (SMS) of the Committee on Materials (COMAT). The purpose of SMS is to coordinate superconducting materials research among the agencies of the federal government, to identify relevant issues and concerns, and to bring them to the attention of COMAT. The Subcommittee has prepared a report entitled "Federal Programs in Superconductivity" (January, 1988).

Question. A second recommendation made by the Academies is that the federal government should review high temperature superconducting science and technology in the field after 12 months as a guide to future resource allocation. Where do you stand on implementation of this recommendation?

Answer. NSF is participating fully in the Superconducting Materials Subcommittee (SMS) of the Committee on Materials (COMAT). The Subcommittee focusses its attention on long-term, high-risk, basic research in superconducting materials that has the best chance for wide generic application and can play an important role in U.S. global competitiveness.

The Subcommittee has been meeting regularly since May 1987 to assess developments in the field of superconductivity. The Chairperson of SMS may also initiate ad hoc working groups or task forces to undertake studies or analyses in the field of superconducting materials. The information provided through these SMS activities is important in guiding future resource allocations. Therefore, implementation started before the Academy report actually came out.

MATERIALS RESEARCH LABORATORIES

Question. Your fiscal year 1987 request for Mathematical and Physical Sciences was cut by 5.3%. You told the House subcommittee last year, Mr. Bloch, that as a result of this cut the total number of materials research laboratories would fall from 14 down to 9 or 10 at the end of 1987. The closures were to be Ohio State University, Purdue, Case Western, and Carnegie-Mellon University.

Were these labs indeed closed?

Answer. The Materials Research Laboratories (MRLs) at Ohio State University and Purdue University were phased out over a three-year period beginning in FY 1985. The MRLs at Case Western Reserve University and Carnegie-Mellon University were phased out over a two-year period beginning in FY 1986. The MRL at Brown University is being phased out over a two year period beginning FY 1987. In order not to jeopardize the very strong potential of parts of some of these MRLs, Materials Research Groups developed from research previously supported by the respective MRLs were begun in FY 1986 at Purdue University, Case Western Reserve University, and Carnegie-Mellon University, and in FY 1987 at Brown University.

Question. How many materials research labs exist today?

Answer. Nine, not including Brown University.

Question. You plan to spend $26,870,000 on materials research labs in fiscal 1989, an increase of $700,000 over your current estimate. Do you have plans to open new materials research laboratories in fiscal 1989?

Answer. The requested increase (2.7% over the FY 88 Current Plan) is intended to maintain the strength of the remaining nine MRLs, each of which has received extremely strong evaluations by merit review in FY 86, FY 87, or FY 88.

The Division of Materials Research will, of course, respond to proposals for new MRLs. However, any new MRL would have to come at the expense of one or more of the remaining nine MRLs.

CHEMICAL, BIOCHEMICAL, AND THERMAL ENGINEERING

Question. You are requesting a total of $31.9 million for chemical, biological and thermal engineering in 1989, an increase of 10.4 percent above your current level.

One of the recommendations contained in the National Academy's Research Briefings, 1987 report was that "the NSF should create incentives for select researchers at the cutting edge of chemical engineering to write the next generation of textbooks for their field."

Can you tell us what steps, if any, you are taking to implement the recommendation?

Answer. The Chemical, Biochemical, and Thermal Engineering (CBTE) Division supports most of the cutting-edge research in chemical engineering that is performed at universities in the United States. In this way, the Division has helped to create the knowledge that will appear in the next generation of textbooks for the field. To a modest extent, the Division has also sponsored activities which directly encourage the writing of such textbooks, for example, the conference on "Chemical Engineering Education in a Changing Environment," which was held in January 1988 and organized by the United Engineering Trustees.

EMERGING ENGINEERING TECHNOLOGIES

Question. You are requesting $19.4 million for emerging engineering technologies in fiscal year 1989, an increase of 17.2 percent above your current budget. A substantial portion of this $2.85 million increase, $2 million worth, will be devoted to a new emerging technology initiation program which consolidates activities from existing programs including Bioengineering and Research to Aid the Handicapped. Can you tell us how this program for the handicapped relates to the work of the National Institute on Disability and Rehabilitation, which received $51.1 million in 1988, and the Veterans Administration's rehabilitation research program, for which we appropriated $20.5 million last year?

Answer. The Bioengineering and Research to Aid the Handicapped program supports fundamental engineering research the results of which may yield practical benefits for disabled persons only after years of development supported by programs such as those at the National Institute on Disability and Rehabilitation Research (NIDRR) and the Veterans Administration (VA). Thus, NIDRR and VA both support primarily engineering development and clinical research, whereas NSF supports fundamental research which can only be made practical through development activities such as those at VA and NIDRR.

Question. On page ENG-19 you indicate you will be supporting two additional technologies under your emerging technology initiation program. Have those areas been selected?

Answer. No.

Question. [If not] What approach will you use to insure that you choose emerging areas that have a truly high priority.

Answer. The Division of Emerging Engineering Technologies will select technologies for funding under the emerging technology initiation activity based on discussions with panels of senior representatives of academia, industry, and the entrepreneurial community. These panels will be asked to consider the following criteria, which were originally developed in similar discussions with representatives of these groups:

- Emergence can be accelerated by an improved academic research infrastructure;
- The needed research infrastructure involves skills in more than one of the traditional engineering and scientific disciplines; and
- Successful development could lead to industries, products, or processes with strong civilian market potential.

ENGINEERING RESEARCH CENTERS

Question. As your justifications indicate, these Engineering Research Centers "seek to enhance the Nation's economic competitiveness by strengthening university/industry coupling in research and development", thus enhancing the probability of "innovative and industrially relevant research". Although these are fairly new programs, I would like to know whether they have been successful in terms of transferring technology out of the laboratory. Could you please tell us what successes the centers have achieved? have there been any major process, design , manufacturing, or product breakthroughs attributable to Center work?

Answer. The ERC itself is a site for continuous, interactive technology transfer activities since various industrial firms are actively involved in the planning and research at each ERC. Though it is early to expect major breakthroughs at most of the ERCs, some of the ERCs can point to actual technology transfers taking place. The following are only two of several examples:

Columbia ERC on Telecommunications

INTEL has announced an Ethernet Transceiver chip using continuous-time MOSFET-C techniques developed by an ERC research group. Other companies have picked up this work as well, but because of the proprietary nature of the products, details on the research is still confidential.

SWITCAP, a software package of switched capacitor network design tool has been purchased and is used by over 200 users in industry and universities.

SPEED, a software tool for signal processing developed at the ERC is being distributed to interested users and is used on an experimental basis by two firms.

MIT ERC on Biotechnology Process Engineering

A new unit operation, continuous affinity recycle extraction (CARE), has been developed for continuous purification and concentration of proteins. CARE incorporates principles of membrane separation, liquid-liquid extraction, and adsorption. Separation of mixtures of proteins as well as the purification of specific protein from complex cell homogenate was demonstrated. It was shown that the unit operates continuously, at steady-state, for prolonged periods. Studies are now directed to use this technique for large scale protein purification.

The Pall Corporation, Alfa-Laval AB, and Aspen Tech, Inc., are collaborating with MIT to develop the CARE system further as an industrial prototype unit. The software for the separation sequence in protein recovery and the acquisition of the knowledge-base for protein separation sequences have attracted a number of potential users. A collaborative effort is now underway between the Center, Biogen Research Corporation, and Genetic Institute.

Question. On page ENG-27 you indicate that "initially an Engineering Research Center is funded for five years. During the third year, it receives a major review. If the results are successful, funding is extended for another 5 years; if not, NSF support is phased out by the end of the fifth year." Several of those programs have now gone through their 3rd year review. What have been the results of those reviews? Are any of the original centers being phased out?

Answer. The first six ERCs have undergone their first review/evaluation for renewal or phase-out. Four of these centers were judged successful in meeting the goals of the ERC program and their own proposed goals. They were recommended for renewal for another five year period, beginning in their fourth year of operation. They will undergo a similar major review in their sixth year of operation.

- These centers are to be commended for successfully developing very effective Engineering Research Centers which combine integrated, cross disciplinary research efforts with industrial cooperation programs that provide both support and active collaboration with industry, and developing innovative education programs to involve both undergraduate and graduate students in this new type of research experience.

- The remaining two centers did not achieve this level of success in meeting their proposed research goals. They will be phased down over the next two years.

Question. How do the ERC's differ from your proposed Science and Technology Centers? Could you please tell us what the similarities and differences are?

Answer. We make the distinction between the two programs in the following way: if the primary work to be done is engineering, and/or if most of the work to be supported by NSF is engineering research in the realm of generic devices, prototypes, processes or design, the proposed center is more likely appropriate for the ERC program than for the STC program. On the other hand, if the primary work to be done is fundamental science and technology research, the proposal belongs in the STC program.

- Although scientists may be conducting research at particular ERC's and conversely, engineers may be performing research at selected STC's, it is the nature of the work that is different.

- As far as similarities, these may be summarized in the following way: linkages are required with other sectors, there exists a strong educational component, both programs involve collaborative research, and provide facilities and equipment.

PUBLICATIONS

Question. Director Bloch, I think we can all agree that engineering research is important to the technological future of the country. However, I notice that you have awarded a $42,100 grant to a professional society for the conduct of a market analysis to determine the feasibility of "launching a successful professionwide news publication for the engineering profession". It seems evident that this money is not being expended for engineering research but rather for the engineering community to look into the feasibility of a new publication. How can you justify spending Federal money to conduct market analysis?

Answer. The lack of a forum for public discussion of engineering research policy issues has been felt for some time. The science community uses the journal "Science" as a forum for discussion of science research policy. An engineering-oriented publication might fill a similar need in that community for the discussion of such issues as relevant research, future research needs, and the direction of engineering research and education policy. In view of the critical role that engineering plays, and will continue to play, in enhancing our nation's economic competitiveness, such a discussion is considered vital to the national interest.

RISK ASSESSMENT OVERLAP

Question. You are requesting $288.7 million for biological, behavioral, and social sciences in the coming fiscal year, including $65.3 million in 1989 for biotic systems and resources, an increase of 10.6 percent above your current biotic systems budget. I understand you awarded a $74,600 grant for a Workshop Series on Understanding Risk Assessment to McCormack Associates, Inc. Another $136,000 was awarded to the Council on Environmental Quality for a Handbook on Risk Assessment. In fiscal 1988 Congress appropriated $3 million to the Environmental Protection Agency in their Research and Development account specifically earmarked for risk assessment. How do you justify funding risk assessment projects when they are already being supported by another government agency?

Answer. The subject of risk assessment is not limited to the performance of risk assessment procedures nor to the development of specific techniques for the assessment of specific risks. These approaches are, however, the principal functions of the EPA risk assessment activities. Risk assessment applies to many activities in society and to most government agencies. In 1985 NSF together with OSTP began an interagency group on risk assessment activities. That group met several times and consisted of more than 15 agencies with highly variable risk assessment needs. Only a few of those needs centered on carcinogenesis, toxic chemicals or environmental effects. All of the agencies shared in the need for a better theoretical basis for approaching the development of risk assessment procedures. This is far outside of the purview of the EPA or any single agency but falls within the basic research function of the National Science Foundation. The collaboration with the Council on Environmental Quality was, in part, a result of the NSF-OSTP activity and the desire by other agencies for help in their risk assessment design and conceptualization. The award to McCormack Associates was to help in making leaders in the Congress and other bodies aware of the use and structure of risk assessment activities so that they are aware that the assessment of the impact of carcinogens, etc. amounts to only a small fraction of what constitutes risk assessment in the government or in industry.

Question. Last year you and I discussed NSF's reputation as a soft touch, a place where grantees turn to when they've been rejected elsewhere. In order to alleviate that problem I asked if a mechanism was in place to check with other agencies to see if they had turned down the grantee or were currently funding a similar study. I am aware that NSF and NIH share data bases on every award that is granted and I commend you for that. What formal mechanisms have been set up with other agencies to avoid duplication of projects or the funding of a project which has been turned down by another agency?

Answer. Besides access to lists of pending and funded projects, such as those described for NIH and NSF, there are two items of information that trigger close scrutiny for identifying overlap of support or projects turned down by another agency. First, as part of the grant application, the principal investigator is required to tell NSF whether the application is being submitted to another agency. If this is the case, the program officer is expected to follow up. Such a follow-up can involve a number of measures to avoid duplication of effort or our funding a passed over proposal.

These measures include coordination of peer review, and division of the project between agencies to provide a non-duplicating level of support if there is scientific merit. The second source of information is the requirement for the principal investigator to list current and pending research support, titles, agencies, duration and amounts. Again, the program officer uses this information to identify related work, and to determine how close the relationship is for purposes of avoiding duplicated effort. Also, the statement of current and pending support is important data to address the question of whether there is a possibility of over-commitment on the part of the applicant. A great deal of the responsibility to avoid duplication of effort lies with the program officer. Their recommendation to support or not to support a project is expected to take into account the concerns you raise.

I think for the record we need to clarify that not receiving funding by another agency for a project does not necessarily mean that the research proposed is second rate or otherwise inferior. Agencies support research to support their mission. Therefore, there are projects that are tangential to or ahead of a particular mission question that might well not be funded by Agency X that-nonetheless are solid research and constitute important contributions to a discipline. In fact, such projects as might be seen as "too basic" today may in fact form the basis for solving a major problem tomorrow. It is the purpose of the NSF to look beyond what is possible today and develop the knowledge and scientific personnel for the future. Nowhere is this more the case than in biology.

LINGUISTICS

Question. You are proposing to spend $3.14 million on linguistics research in 1989, an increase of 4.8 percent over your current linguistics budget.

One project you are supporting in this area is titled "The Language of Dispute Management in the Kingdom of Tonga."

Apparently Tonga has a mixture of western and indigenous institutions for the formal resolution of disputes including the court, the town meeting, and the church. The focus of the research will be to understand, describe and explain certain linguistic patterns of the Tongan people, including differing levels of speech, in terms of the social settings in which they are used.

This is all very interesting, but why should the Federal government spend $120,000 for this kind of work?

Answer. A major use of language in all human cultures around the world is in the negotiation of legal and political disagreements. As we all know, one cannot successfully engage in such disputation without learning the rules, and the rules differ greatly from place to place. It is for this reason that we hire lawyers and why different states, to say nothing of different countries, have their own bar examinations, and this is also at the root of why we find it difficult to deal with other cultures. If we assume the rules are the same, we can make no sense of what actually goes on, yet we also sense intuitively that there are limits on possible variation within human society. In recent years there has been an effort to learn what these universals are that limit the variation, and this has given rise to a significant body of writing on conflict management within a larger field known as the ethnography of communication.

Much of the work dealing with conflict management up to this point has dealt with western cultures. Professor Philips, an expert on the language of the US courts, is spending two years observing conflict management in Tonga, where history has brought several different languages and cultures into contact, observing first-hand how the citizens of Tonga resolve their differences and how they integrate western and indigenous conventions that are often at odds.

Dr. Philips' research involves detailed observation of the uses of language in courts, town meetings, and churches and discovering what features of speech in various settings are understood by the Tongans to convey reliability, responsibility, and persuasiveness, things it would be very useful for us to know in future dealings with the Tongans and other peoples of the Pacific. She is investing two years in the work.

ANTHROPOLOGY -- CROWDING IN BANGKOK

Question. On May 6 of last year you awarded a three year $150,000 grant for the study of crowding in Bangkok, Thailand.

The study brings together American and Thai research teams to assess whether a greater density of percent in households is associated with more stress related physical illnesses such as hyper tension and greater tension between spouses and between parents and children.

Although different societies may be more or less able to tolerate the stress that comes from overcrowding, I would think that question would answer itself. Isn't it pretty clear that crowding produces physical and social stress?

Answer. Surprisingly, past studies of crowding have produced mixed results. Some research has shown no independent effect of crowding and other research has shown inconsistent effects. Most of this work, however, has been carried out in the more developed parts of the world where crowding ranges only from low to moderate when compared to crowding in the less developed parts of the world. The extreme levels of crowding found in parts of Bangkok make that city a valuable laboratory for sorting out whether crowding is in fact related to physical and social stress, and, if so, how.

Question. Is the Thai government contributing to the research?

Answer. Yes, the Thai government is paying for the vehicles and drivers to be used in the survey part of the project.

GEOGRAPHY

Question. You are also spending $83,705 on a 2 year study that will investigate how "the locations of residences, the location of jobs, and commuting patterns between home and work influence the participation of females in the labor force and the concentration of women in certain female-dominated occupations."

Mr. Bloch, I have always been an avid believer that women and minorities can and should move into higher paying occupations. I'm not convinced, however, that by moving into a new neighborhood, a promotion out of the female-dominated occupations will follow. Moreover, the study does not even consider key variables, such as educational status, economic status, or whether children are involved. Do you really think a study like this can draw valid conclusions when it excludes these key variables and focuses instead on commuting patterns as they influence the concentration of women in female-dominated occupations?

Answer. The purpose of this research (SES 85-20159, "Geographic Perspectives on the Occupational Segregation of Women" by Susan E. Hanson) is to determine whether, given the constraints imposed by commuting distance and time and the locations of residences and job opportunities, it is possible for women to compete in the labor force on an equal basis with men. Preliminary findings suggest that:

- women invariably live closer to their jobs than men, and women spend less time commuting than do men;
- women are less able to adjust their commuting times than men;
- women are therefore more constrained geographically in competing for jobs than are men.

Educational status, economic status, and the presence of children in the household are important variables, and the investigators will determine, through interviews, the degree to which these matters also influence job search and commuting distance.

Significant differences in commuting distances will likely remain once those variables are considered. The remaining differences will provide insights into the ways the respective locations of female labor force participants and employment opportunities constitute structural or geographical impediments to equality of participation in the labor force.

ECONOMICS -- MEASURING THE IMPACT OF CAPITAL INCOME TAXATION

Question. Another economics project I'd like to focus on is titled "Measuring the Impact of Capital Income Formation," a 24 month, $93,000 study. The purpose of the project is to measure the impact of the corporate income tax.

If ever a subject was studied to death, this is it. Half the lobbyists in town live or die by changes in the Internal Revenue Code and the staffs of the Joint Committee on Taxation and the Assistant Secretary of the Treasury for Taxation have career responsibilities in this area.

You know, $93,000 would provide rental vouchers for 9 low income families for two years. If you were me, how would you explain to those families why it is more important to support yet another study of capital gains taxes?

Answer. Basic research in economics has contributed a great deal to our understanding of the way capital income taxes affect economic growth. NSF-supported economists testified before the Joint Economic Committee, helped shape the tax reform legislation, served as consultants to the Department of Treasury and completed a number of articles and books that informed the debate about tax policy.

But this issue is not closed. Lobbyists will continue to press for changes in the Internal Revenue Code. Questions about the impact of capital gains taxation on the economy have not been answered definitively. In fact, past research has shown us how limited our knowledge is and how additional research could improve our understanding of how the economy works in this important area. Moreover, the stakes are very high. A better answer to questions about capital income taxation could mean savings of many billions of dollars--enough to pay for the cost of this project or the cost of rental vouchers for 9 low income families many times over.

Economists have learned that capital income taxes affect the decisions of firms in complicated ways that can be understood only by a careful microeconomic examination of the provisions of the tax system and the structure of the economy. This is exactly what this project does. It uses new data assembled from the tax returns of large corporations and a substantial random sample of smaller firms for the years 1970 through 1982. It develops new theory that can account for much of the detail on industrial structure assumed away by previous studies. It corrects serious measurement errors present in past studies of capital taxes.

Finally, it obtains new and better estimates on how investment incentives affect the international competitive position of specific industries.

GEOGRAPHY

Question. You are requesting $3.2 million for geography research in 1989, an increase of 18.5 percent in the current budget and almost twice as much as you spent in 1987.

Among other projects, you are spending $60,000 for a study titled "Development of Decision Aids for Reorganizing Settlement Systems in Sparsely Settled Regions: Australia."

This research is supposed to "provide valuable insights into the ways residents of sparsely populated regions use service centers and into the values they assign to different goods and services obtained in urban centers."

This seems like a nifty study for a shopping center developer, but why should it be paid for by the American taxpayer?

Answer. The research funded by award SES 85-16644 ("Development of Decision Aids for Reorganizing Settlement Systems in Sparsely Settled Regions of Australia," by Gerard Rushton) should be supported by American tax funds because:

- American scholars will learn more at a theoretical level about how settlement systems are organized and how they evolve. The relationship between the size and spacing of cities and towns on the one hand, and the goods and services provided in those cities and towns on the other, is a long-standing theoretical issue in geography and regional planning. Our ideas about that relationship will be improved by applying them to the extreme case of the very sparsely settled regions of Australia. Extreme cases are often most instructive in theoretical as well as practical terms.
- Professor Rushton's research will be applicable in sparsely populated regions of the United States such as the Great Plains. The results will helpful in formulating federal-, state-, and local-level policies in regions that are losing population. Maintaining access to goods and services in thinly settled and depopulating regions is a serious problem in rural America.
- American scholars and practitioners will learn more about how modelling and simulation can be used to make rational economic and geographic decisions. They will also learn more about the ways microcomputer-based modelling can augment regional planning conducted with citizen participation. Professor Rushton's research focuses on making the results of complex mathematical models and simulations available to affected residents in terms average citizens can easily understand and evaluate. The decisions citizens recommend on the basis of such models provide

insights into what goods and services people will select at what costs. Australia is an appropriate locale for such research because citizen participation in regional planning is more common and more advanced than in the United States.

- American society benefits from this project through the establishment of collaborative research with The University of Queensland (the Australian institution involved). American students and faculty working on the project will acquire valuable expertise on an overseas region of strategic importance to the United States.

ECONOMICS

SES 87-09236, "Economic Argument: Reading, Misinterpretation, and Scientific Disagreement" by Donald N. McCloskey

Question. Another economic study you are supporting is a $10,000, two year, examination of "Economic Argument: Reading, Misinterpretation and Scientific Disagreement."

As you point out in your project summary, the researcher will examine how economists read, "through detailed study of certain scientific debates in economics, examination of referee reports, and a close analysis of the narrative role of economic theory and applications."

I would imagine that different human beings read in different ways, regardless of their discipline. Do you expect to find that economists read differently than lawyers or doctors?

Answer. The general perception of economists is that they and other scientists read (i.e., absorb information) differently than other people. Scientists are supposedly persuaded only by rigorous analysis and objective empirical evidence. But people are affected by many other factors such as the style, the influence of authority figures and even aesthetic judgments ("a beautiful theory"). People misread and misunderstand what they read.

The disagreements among economists about what counts as correct economic analysis and convincing empirical evidence suggest that economists are not different than other people; that they also misread and misunderstand. The contribution of this project comes from applying theories on how people do and should understand economics. These theories of literary criticism have a long history in the humanities, but have not yet been applied to the sciences. The results of the project should provide better evidence on how ideas are communicated in economics and on how this communication can be improved.

Question. As you say in your project summary, the tools being used are those of literary criticism, supplemented by philosophy and history of thought. This being the case, why isn't the National Endowment for the Humanities funding this study?

Answer. It is. Most of the funding for this line of research comes from NEH. But this project is multidisciplinary, it applies the tradition of literary criticism in the humanities to the tradition of science in economics. The results of the research help us to understand how economics and possibly other sciences actually work and how economics might be improved.

ANTHROPOLOGY - FARM SURVIVAL IN GEORGIA

Question. I note that the Foundation spent about $61,000 on "Determinants of Farm Survival in Georgia". These funds permitted the PI to conduct 9 months of field work in Dodge County, Georgia to evaluate the effects of the recent drought and the changes in the financial picture regarding foreclosures for farmers.

The project is considered important because it brings a fresh point of view to our understanding of the current "crisis" in family farming.

This might be an appropriate project for the Department of Agriculture, but why is it being funded by NSF?

Answer. This project contributes to some areas of basic science in cultural anthropology. The study will advance our understanding of how family farmers make important decisions about staying in farming or increasing or decreasing the scale of their operation. The knowledge from this project will contribute to our general understanding of how households make economic decisions. While not explicitly comparative, the results will contribute to a comparative literature on household economies. While the results will be interesting to the Department of Agriculture as a case study, the generalizing theoretical intent of the project marks it as appropriate for support by the National Science Foundation.

ANTHROPOLOGY - FERTILITY STUDIES

Question. Your budget request includes $46.5 million for behavioral and neural sciences, an increase of 6.2 percent above the current budget.

You are requesting $8 million in fiscal year 1989 for anthropology, an increase of 5.8 percent over the current level. I would like to discuss a few grant proposals in this area.

You are continuing to fund research entitled "Eastern Caribbean Fertility Transition." The Principal Investigator has been working on a case study to test a theory of "the demographic transition", or the change from large to small family sizes. According to the grant sheet, and I quote, "This research is important because the demographic transition is a major demographic event in the recent history of the developed world. This research is refining a theory that has the potential to explain why people choose to have less children than their ancestors did. If we understood the causes of reduction in family size, we would know how to modify the high growth rates of the underdeveloped world."

Over $70,000 has been spent on a project entitled "Demographic Transition in Croatia." This research also studies the change from large to small family sizes. The grant sheet reads "Studying how such events took place spontaneously in the past will provide important information which may assist in understanding the factors which control fertility in present-day underdeveloped societies."

Another $30,000 is being spent on a study of "Fertility and the Household Division of Labor Among the Maragoli of Western Province Kenya" which again looks at family size, this time in Kenya. The research is considered valuable because "improved understanding of the causes of lowered population growth in the developing world is of critical importance."

Finally, you are spending about $17,000 on a study of Economy, Family Change, and Fertility in Nepal." In this project the PIs will study two Tamang villages and then relate fertility to household and family patterns as well as the social organization of the villages.

It seems to me that this sort of research has been done time and time again. Can you tell us what these findings might tell that we haven't learned from dozens of similar studies? I'd also like you to explain why you are funding so many studies that seem so similar in purpose.

Answer. The demographic transition is one of the major population events of modern times. Understanding the causes of voluntary, natural declines in family size is important in a world in which overpopulation and poverty are terrible problems. As is common with social phenomena, the causes of a demographic transition in any particular place are many and complex. The social phenomena of birth rates is composed of many individual decisions. An individual's decision about whether to have a child is affected by age, marital status, income, wealth, social status, family connections, occupation, and other more subtle factors such as one's beliefs about economic trends in the future. There are several theories which explain the demographic transition and research is necessary to refine the theories, so that they become more powerful and precise in what they can explain. Anthropologists do this by applying the theories to specific cases and evaluating the local situation to see if the causal factors cited by the theories are present.

The Caribbean project is gathering data on Barbados to compare with the demographic situation on other Caribbean islands, to examine and refine one of the major theories of demographic transition. This area is just now going through the transition. This project is examining the relation of job skills, formal education and familial support on fertility.

The Croatia project is trying to explain why this area experienced a fertility decline earlier, and under more backward conditions than the extant theories would predict. It does this by examining the effects of demand for military manpower, the abolition of serfdom and economic fluctuations on fertility and mortality.

The Kenya project is a pilot study in an area of extremely high fertility in general, but with significant variations in fertility in different social-economic classes. The PI will test and refine a theory of demographic transition with precise behavioral observations of how people allocate time as well as examine people's understandings of how their social networks affect their incomes.

The Nepal project will study how family changes mediate the effects of economic development on fertility. By combining the tools of survey research with those of ethnographic observation, it will test hypotheses about the roles played in the demographic transition by inheritance, production patterns, gender roles, and marriage rules.

Taken together, these studies each try to test, modify and improve a theory by fitting it to a different case. Each case study is like an experiment in a laboratory setting. The goal is the same - to add to our substantive base of knowledge and to improve the power and scope of theory.

PSYCHOBIOLOGY

Question. I note that you awarded $64,000 for an 18 month study aimed at analyzing the Australian magpie's song. The research will focus on "several aspects of the role of song in social interaction."

I find it difficult to believe that the Federal government would send a researcher to Australia to study the social interaction processes of magpies. What precludes the researcher from studying magpies native to America?

Answer. Although they share a name, the only resemblance the Australian magpie bears to the magpies of North America and Europe is that it is a large, black and white bird. Australian magpies belong to a family of birds that is found only in the Australian region. Unlike magpies native to American, the Australian magpie lives in groups of 3 to 20 members. Group members cooperate and share duties within the group. They communally defend their group territory against rival groups and intruders. There is also competition for status and material advantages within the group. All Australian magpies, of both sexes, sing communally in many situations ranging from territorial defense to nest-building. It is this unique set of features of the behavior of Australian magpies that makes this species especially valuable for a study of the role of complex vocalizations in social interactions.

Question. While the social interaction of Australian magpies as evidenced by their song may be worthwhile, it seems somewhat frivolous in these times of deficit reduction. How do you justify this study?

Answer. The learning and use of complex vocalizations is a biological phenomenon that is common to numerous species, including human beings. To look for general biological principles about how a phenomenon works, we often study many different species. For instance, to understand the general principles about how DNA works, we study it in simple organisms like bacteria and fruit flies. Many of the principles about how DNA works are applicable to all organisms, including humans. Similarly, research on vocal learning and the use of complex vocalizations has broad applications that extend far beyond the particular species investigated. Studies of vocal humans. Australian magpies live and breed in large communal groups.

The present study focuses on such questions as: What is the meaning and function of complex vocalizations in this society? How does use of complex vocalizations affect cooperation and competition by group members? Does belonging to a particular group affect which complex vocalizations function in a complex social system?

OCEAN SCIENCES

Question. You are requesting $320.9 million for geosciences in 1989, an increase of 10.1 percent above your current budget. This request includes $146.5 million for Ocean Sciences, a reduction of about $3 million below last year's initial request. Can you tell the committee what activities you initially planned to support in 1989 with your proposed $149.5 million budget that were deleted from this year's $146.5 million budget request?

Answer. Incremental funding for the Global Geosciences initiative has been reduced. This slows the rate of growth for the Tropical Ocean Atmosphere Program, World Ocean Circulation Experiment, Ridge Crest Processes, and the Global Ocean Flux Study (GOFS) components. The impact of this slow down affects both the Ocean Sciences Research Support and the Ocean Centers and Facilities Subactivities. GOFS is the least impacted of the above programs because of a field program that is planned for in the FY 1989 Request.

Question. I note that the Foundation made two awards to the same investigator within two weeks of each other for projects titled "Lead in the Antarctic" and "Lead in the Northwest Pacific." The projects seem to have a great deal in common yet one was funded by the Polar Ocean Sciences program and the second was supported through the Chemical Oceanography program. Different program officers were involved in each instance. Can you tell us why these projects weren't funded through the same program?

Answer. NSF is charged with budgeting for and managing the U.S. National Program in Antarctica. This includes funding university research investigator programs related to Antarctica. A separate appropriation for the U.S. Antarctic Program is provided for this activity. The proposal titled "Lead in the Antarctic" was supported out of this appropriation which is managed by the NSF Division of Polar Programs. The proposal entitled "Lead in the Northwest Pacific" is aimed at studying certain oceanographic processes far removed from the Antarctic using lead as a parameter. Proposals to use lead isotopes for tracing water masses and defining ocean circulation is appropriate for the NSF Division of Ocean Sciences to receive, review, and support if meritorious.

Question. My reading of the budgets for these two grants indicate that the Foundation is funding 100% of the principal investigator's salary for at least two years. Why isn't his institution, the University of California at Santa Cruz, picking up a portion of this salary?

Answer. Unfortunately, a large majority of university research oceanographers is supported by funds from outside of their institution; many require 100 percent of such money for their salary. NSF policy is to provide support necessary to accomplish proposed research.

U. S. ANTARCTIC PROGRAM

Question. As you know, Mr. Bloch, your request for Antarctic program funding was cut by 12.7 percent in 1988. You are requesting $141 million for the program in fiscal year 1989, which is $2 million below last year's initial request. Can you tell us what activities were included in last year's request but deleted from this year's request?

Answer. There were a number of changes between the FY 1988 and FY 1989 request.

- Funds for the research ship with icebreaking capability were decreased by $6 million as a result of stretchout of the acquisition process. This was almost entirely offset by increases in cost of program operations totalling $5.9 million.

- Construction and Procurement was decreased by $3.9 million. Items deferred include heavy equipment and upgrades of satellite communications gear.

- There was a $2 million increase in the Antarctic Research Program, despite the $2 million decrease in the total U.S. Antarctic Program request for FY 1989 as compared to FY 1988.

Question. Even though we cut Antarctic program funding by $18.2 million below your budget request last year, you were able to maintain the research program at the $13.5 million level originally proposed. In order to do this you cut operations support by $6.9 million and major construction and procurement by $11.3 million. Now I can understand how construction projects and procurement items can be delayed or deleted but how did you go about reducing operations support by 7.5 percent? I would think these costs represent fixed overhead.

Answer. The cut in operations support of $6.9 million is the net effect of two adjustments. The first is a $10 million reduction from the $13 million planned for the research ship with icebreaking capability. Costs of this new ship are budgeted in the operation support subactivity as are those for POLAR DUKE. Charter costs will be deferred. The second is an increase of $3.1 million in order to provide for higher than anticipated operating costs, particularly those associated with McMurdo Station, transportation between New Zealand and the continent, and contractor operations.

USAP -- OZONE DEPLETION

Question. You are requesting $15.5 million for the Antarctic research program, a 14.8% increase over the current level. One of the projects supported in this program has to do with ozone depletion, an issue of global concern. How much do you plan to devote to projects concerned with ozone depletion in fiscal 1989?

Answer. We are planning to increase research related to ozone depletion to $1.5 million. This compares to a planned $1.0 million in FY 1988 and $0.5 million in FY 1987. The increase in FY 1989 will be devoted primarily to research on biological effects of ultraviolet radiation resulting from the ozone depletion.

Question. Are any of these projects being carried out in conjunction with the Environment Protection Agency, the National Oceanic Atmospheric Administration, or the National Aeronautics and Space Administration?

Answer. In 1986 and 1987 the NOZE I and II expeditions to McMurdo Station were composed of NASA, NOAA and university researchers. In 1987 a NASA team at Palmer Station conducted balloon measurements in conjunction with NASA flights from Punte Arenas, Chile. The 1988/89 NOZE III and biological effects campaigns will also include NASA, NOAA and university scientists. The EPA will contribute to an NSF sponsored workshop to determine areas of research needs, standardization of data collection, and long range plans.

Question. Although I am very supportive of this valuable research, I want to make sure that you are not duplicating in any way the work of these other agencies. Can you tell me what mechanism you use to avoid the possibility of duplication?

Answer. As can be inferred from the answer to preceding question, there is significant coordination on the part of the scientists involved in the Antarctic ozone research. Also, program managers at NASA, NOAA and NSF are in frequent contact on various aspects of ozone depletion projects. In general NASA supports the satellite and aircraft measurements. NSF supports ground based and balloon measurements in Antarctica as well as work of biological effects. The NSF supported projects are selected in a special competition for research and logistics support. Evaluation of projects is carried out by a panel composed of experts affiliated with NSF, NOAA, NASA, the Chemical Manufacturers Association, and universities. The panel's task has been to choose meritorious research proposals and to avoid duplication of effort.

ACQUISITION OF MAIN FRAME COMPUTER

Question. You are requesting $95,550,000 for program development and management, a 13.1 percent increase over the current estimate. I see on page PDM-5 of your justification that 17% of that $11 million increase will support software development and operations maintenance of facilities associated with the new mainframe, which is to be installed in the current fiscal year. Precisely when will this computer be installed?

Answer. Based on current negotiations, the mainframe should be installed in June, 1988.

Question. How will the mainframe computer affect your data processing costs in fiscal years 1988, 1989, and 1990?

Answer. The total estimated cost for acquiring, operating, maintaining and developing software applications for the mainframe during fiscal years 1988, 1989, and 1990 is $10,728,000. The following table presents costs by budget line:

Estimated Mainframe Costs
FY 1988 - FY 1990
By Budget Line
(Thousands)

	FY 1988	FY 1989	FY 1990
Equipment	$1,813	$2,400	$1,300
Operations/Maintenance	215	1,000	1,200
Software Development	700	1,200	900
Totals	$2,728	$4,600	$3,400

PERSONAL COMPUTERS

Question. In last year's House hearing record you indicated that you planned to acquire and install 150 additional microcomputers in fiscal 1987. How many microcomputers did you actually acquire and install in fiscal 1987 and what was the total cost.

Answer. NSF purchased and installed 176 personal computers in FY 1987 at a total cost of $423,000.

Question. How many microcomputers do you plan to acquire and install in fiscal year 1988 and 1989 and what will the costs be each year?

Answer. In FY 1988, NSF plans to replace or upgrade 150 microcomputers and acquire 25 advanced workstations at a total cost of $400,000.

In FY 1989, NSF plans to acquire 170 advanced workstations for a total cost of $600,000.

SURVEY OF APPLICANT VIEWS

Question. In last year's hearing with the House you provided for the record a status report on a survey of fiscal year 1985 research applicants. You told us that 38% of the respondents were dissatisfied with the review process. One of the most frequently reported complaints was "cursory reviews" and "reviewers being poorly qualified or chosen." How have these survey results affected the review process?

Answer. An analysis and summary of survey findings has recently been published (NSF 88-4, February 1988) and is receiving widespread distribution throughout the research community. One of the key findings is that dissatisfied applicants, particularly those whose proposals have been repeatedly turned down, tend to say that reviewers' comments are not sufficiently thorough or that some individual reviewers are not familiar with the topic of the proposal.

As a matter of policy, each proposal receives a minimum of three external reviews; the average for research proposals is 5.5. NSF seeks to avoid reviewer concentration and to involve a broad base of persons (some 53,000 in FY 1987, for example). Many are not familiar with the process, so it should not be surprising that some individual reviews are incomplete or off the mark. Program officers take those problems into account in making their recommendations.

Externally, we are mounting an effort to improve the thoroughness and quality of reviews by publicizing the survey findings in various forums. Within NSF, we have taken steps to incorporate these and other findings into the training program for new program managers, and have begun a round of discussions with program staff about the survey report and the need for a continuing high level of feedback to applicants.

TEACHING MATERIALS

Question. One of your targeted areas is "resolving problems of classroom materials that are outdated or poorly adapted to the preparation of a scientifically and technologically literate population". I noticed that NSF made several awards in fiscal 1987 to develop programs to achieve that end. For example, $135,839 was awarded to Hampton University for the development of a model program for the preparation of middle school science teachers. A separate grant titled "Improving Urban Elementary Science : A Collaborative Approach" will design a program to improve students' abilities to think critically, use language, and solve problems using the natural world as an experimental base. What method do you use to evaluate the materials developed through projects like these?

Answer. The evaluation of the Hampton University project will include yearly progress reports identifying accomplishments leading to program goals as well as a final evaluation report of the degree to which the project has met all of its goals. As a part of this assessment a comparison will be made between the knowledge learned by science majors and science education majors in parallel classes. Instructor-prepared exams will be used for evaluating the content knowledge, while problem solving and investigative skills tests will be developed for each course or discipline area. The science faculty and an advisory board of experts will be asked to evaluate the curriculum that is developed. Students who complete this new program will be evaluated during their student teaching experience and during their first year of teaching in the public schools. The Virginia Beginning Teacher Assessment Program will be used to compare the quality of teaching exhibited by teachers prepared by this program as opposed to teachers prepared by other teacher preparation programs.

- The project "Improving Urban Elementary Science: A Collaborative Approach" is one of seven projects that are addressing the need for a consistent and coherent pattern of science education in elementary schools.

  Each project combines development by an academic group, with testing and development in practical school systems, and very substantial participation and financial contribution by a publisher or similar organization.

  Each project has academic and science advisors who are concerned with the quality of content and pedagogy, but the critical criterion of success will be success in this new "marketplace" of alternative elementary school science materials.

  In this sense the ultimate evaluation of this and other such projects will be seen in "head count", the number of students who actually use the materials, and the opinion of school systems as reflected in their purchase and use of the materials.

Question. What role would the Foundation have in distributing the successful materials?

Answer. Materials developed by the project and information on the model will be made available to both state and national organizations for dissemination. Organizations considered of key importance, the Association for the Education of Teachers in Science (AETS), the National Science Teachers Association (NSTA), the National Institute of Science, and the National Black Leadership Round Table, will also be involved in the dissemination of the project.

Question. Can you tell me both the substantive difference and the practical difference between the two areas targeted for NSF attention at the pre-college level? I'm referring to "classroom materials that are outdated or poorly adapted to the preparation of a scientifically and technologically literate population" and "classroom materials that are poorly adapted to stimulate and prepare students for scientific and technical careers"? Are these really two distinctly different problem areas?

Answer. These are two different but complementary problems. At the present time, there is little or no elementary school preparation for most students (see above) and at the secondary school level a collection of pre-professional disciplinary courses like chemistry and physics serves as "general science" for the great majority of students who do not plan to pursue further science study in college. As a result, the general college student arrives with a fragmented and poorly integrated view of "science", while the pre-professional classroom serves two incongruent roles.

Our goal is to provide a "base line" pattern of consistent and coherent science education, K-12, for all students that will serve to provide 1) a demanding, well integrated overview of science for the college bound student; 2) a coherent and conceptually sound background and overview that will prepare students well for disciplinary study at both the high school and college levels; and 3) a significantly greater level of "science literacy" for the 50% of students who do not enter higher education. The elementary school developments mentioned above are the first step in developing this pattern.

By providing this material for all students, it will also be possible to raise the standards, content and performance demands of our pre-professional courses. We see this as an integrated pattern: base-line science for all students; disciplinary courses for pre-professional students; and special programs that provide mentors and research experience for our most gifted and talented.

UNDERGRADUATE SCIENCE, ENGINEERING, and MATHEMATICS EDUCATION

Question. Undergraduate Science, Engineering, and Mathematics Education doubled its budget from 1987 to fiscal 1988, and this year you are requesting a 23.7 percent increase. The entire increase is in two small areas - "Career Access Opportunities in Science and Technology for Women, Minorities and the Disabled", and "Course and Curriculum". Both of these programs have 100 percent increases. The first program supports "Comprehensive Regional Centers for Minorities" and involves systematic approaches to identifying, nurturing, and tracking minority youth through the educational pipeline from the earliest grades through college. Since you are only planning to increase the number of centers from 4 to 5, it appears that individual centers will see their budgets almost doubled. What type of expansion will a doubling of the budget permit ?

Answer. Doubling the budget for the Course & Curriculum Program from $2 million to $4 million will enable NSF to expand the activities in the calculus and engineering curricula from the low start-up levels of FY 1988. Significant impact on the curricula in these two critical disciplines can be provided by the requested level of funding in FY 1989. Assessment of the condition of the curriculum in other major disciplines will also be continued.

The Career Access Program budget will increase from $2.5 million in FY 1988 to $5.0 million in FY 1989. The budget in FY 1988 will allow initial year startup funding at $500,000 for each of four centers; succeeding years funding is expected to average $1 million per year per center with total awards estimated to approach $5.0 million per center over 5 years.

Center activities will include college, school, community, industry and local Government efforts to nurture and educate systematically large numbers of minority students from first grades through baccalaureate degree. Activities will include strengthening undergraduate and precollege courses and laboratory instruction, training programs for teachers, and support for individual specialized educational programs for minority students from kindergarten through college.

SEE STUDY

Question. In last year's hearings with the House, Dr. Shakhashiri told the subcommittee that a $2 million study conducted by Research Triangle Institute and SRI International was almost complete.

The study was designed to look at what we should be doing in science education.

What were the findings of this study and how are they being used?

Answer. The Congress, through PL98-371, mandated a study to assist the development of a "science education plan and management structure" in the Foundation. The study was conducted under two contracts:

The first (NSF-SPA85-54471; $234,000) was awarded to the Research Triangle Institute (RTI) for a study limited to science education in the middle school grades (usually grades 5-7). These are critical grades for students; in them many students develop aversions, particularly to mathematics, that cause them to restrict the studies they take later on -- and so to limit severely their options for employment and more advanced study.

The second contract (NSF-SPA86-51540; $1,600,000) was awarded to SRI International (SRI) for a two-phase study covering science (and mathematics) education in grades K-12. The first phase comprised an "assessment of initiatives available to NSF to address problems and opportunities in science education;" the second phase will develop and test procedures by means of which the Directorate for Science and Engineering Education (SEE) can perform ongoing assessment of its programmatic activities.

The Final report of the RTI study, "Developing Options for Managing NSF's Middle School Science Education Programs," was delivered to the Foundation in December 1986. RTI recommended a "Middle School Initiative" that would concentrate on improvements in teacher preparation, enhancement of the subject-matter knowledge of teachers already in service, development of improved instructional materials, and expanded and more effective efforts to increase the success in science and mathematics study among female students and those from underrepresented ethnic groups.

The report of Phase I of the SRI study, "Opportunities for Strategic Investment in K-12 Science Education; Options for the National Science Foundation," was received in May 1987. The report of Phase II, "Learning from Investments in K-12 Science Education," is expected to be delivered in April 1988.

SRI reported that opportunities for NSF investment in precollege education are most promising in the areas of improving content and instruction, strengthening the school teaching force and the broader community of professionals concerned with educating young people in the sciences, and working with certain institutions in the "infrastructure" for formal and informal science education (testing, publishing, state reform efforts, expanding informal science learning resources, etc.)

Further, SRI urged the Foundation to expand its support of "core functions" in science education such as fostering ongoing professional interchange (especially between educators and members of the research community), conducting research in teaching and learning, and -- in all areas -- encouraging innovation.

The findings of these studies guided the preparation of the NSF FY 1989 Budget Request and were reflected in the most recent update of NSF's Strategic Plan for science and engineering education, submitted to the Congress in November 1987. They are under continuing discussion within SEE, with the Advisory Committee to SEE, and with various scientific and educational organizations and institutions. The cost of implementing all the recommendations exceeds $1 billion.

QUESTIONS SUBMITTED BY SENATOR D'AMATO

SCIENCE AND TECHNOLOGY RESEARCH CENTERS

Question. The NSF's Budget proposes a new appropriation of $150 million to establish 12 to 15 Science and Technology Centers. Could you briefly describe the types of activities to be conducted at these centers?

Answer. The S&T Centers will be unique, new resources to support essential state-of-the-art research activities. Since the Centers will be based in academic institutions, they will include as participants faculty members, postdoctoral fellows, undergraduate and graduate students. In addition, the Centers will actively include participants from industrial research facilities and National Laboratories.

The Centers will exploit opportunities in science and technology where the complexity of the research problems or the resources needed to solve these problems require the advantages of scale, duration, and/or equipment and facilities that can only be provided by a campus-based research center. Significantly, some of the Nation's very best scientists have worked together to prepare the S&T Center proposals in topical areas ranging from new materials (composites, superconductors, biosystems etc.) to significant potential breakthroughs in computer technology. The research problems to be undertaken have major potential long-term value to the industrial and other user communities of basic research, as evidenced by the significant commitments of outside funds referenced in the proposals.

Question. Your testimony indicates that the Science and Technology Centers program has already received more than 300 proposals from 124 institutions. At what stage are you in the selection process, and what criteria are you using?

Answer. The initial phase of the merit review process involving the external mail and panel reviews will take place over the next 4 weeks. This process will lead to the identification of the most promising 10-20% of the proposals. Subsequent review will include site visits and a final examination by an external multidisciplinary panel of very distinguished scientists and engineers from private sector research labs, national labs and academic institutions.

The review criteria are: 1) Intrinsic merit of the intellectual focus and research; 2) Research performance competence; 3) Utility or relevance of the research; 4) Appropriateness of the center approach; 5) Appropriateness of institutional and management plans and arrangements; 6) Effect of the Center on the infrastructure of science and engineering; 7) Quality and appropriateness of the educational and training components of the Center's activities; and 8) Form, appropriateness and strength of linkages and knowledge transfer efforts to other sectors and groups.

INTERNATIONAL SCIENCE STUDENTS ACCOMPLISHMENTS

IMPROVING AMERICAN PRECOLLEGE SCIENCE LEARNING

Question. Your testimony refers to a recent survey of international science student accomplishment. Out of 17 nations surveyed, American 14-year-olds ranked next to last. How does the Foundation plan to address the declining performance of American students in the sciences at the precollege level?

Answer. Through a multi-program attack on many of the root causes of this poor science teaching and learning, NSF can contribute to the solution of this problem.

The programs supported through the Directorate for Science and Engineering Education are dedicated to the improvement of virtually every critical aspect of teaching and learning.

- The Teacher Preparation Program will work with colleges and universities to develop stronger and more effective preservice degree programs for the students who will be tomorrow's teachers of science and mathematics.

- The Teacher Enhancement Program will support institutes, workshops, conferences, etc., to improve the subject matter competence and instructional skills of teachers presently in service.

- The Science and Mathematics Educational Networks Program will encourage applications of the intellectual and material resources of business and industry to local and regional educational problems through awards to Private Sector Partnerships with school districts; and it will support local or regional groups organized to share information, resources, and/or talent in order to improve educational services.

- The Instructional Materials Development Program will support major projects to create new integrated science curricula covering the elementary, middle school/junior high school, and high school years, and single- and multi-discipline course materials.

- The Applications of Advanced Technologies Program will support research, development, and demonstration projects on the use of state-of-the-art computer and telecommunications technologies in science and mathematics instruction.

SUPERCOMPUTER CENTERS

Question. By supporting five National Supercomputer Research Centers, the NSF provides the scientific and engineering research community with access to advanced computing facilities. What has the Foundation done, or what does it plan to do, to evaluate the success of these National Supercomputer Centers?

Answer. During each of their first two years of operations, the Foundation reviewed the management, policies, and services of its centers using teams of scientists and technical experts. Reviewers gave the centers high marks, and suggested improvements to the centers and to NSF. In the future the Centers will be reviewed every two years.

The primary measures of success are: impact on scientific research, advancing research in computational science areas, providing education and training in supercomputing, advancing technology by promoting interaction with computer vendors, and responsiveness to user needs.

Question. It is my understanding that the NSF intended to keep these centers operating at the "state-of-the-art." Am I correct that planned upgrades to the centers had to be deferred in the current fiscal year? How high a priority are these upgrades for the coming fiscal year?

Answer. The FY 88 current plan maintains basic operations at all centers but slows improvements in services, equipment, software acquisitions, and upgrades.

The budget request for FY 89 will maintain support at adequate levels at the centers, and initiate selective upgrading. Upgrading to maintain leading edge capability is necessary to meet demand for computing resources and to allow the centers to maintain their leadership role in training, software improvement and the improvement of scientific computing.

BIODIVERSITY

Question. I understand that the Foundation's National Science Board has recently established a task force on biological diversity. Could you briefly discuss the status of the task force's work? Will the task force be recommending the establishment of any new programs under the Biological Behavioral and Social Sciences Directorate?

Answer. The NSB task force was established in October, 1987, meeting. It is chaired by Dr. William A. Nierenberg. In addition to members of the NSB, the task force has been joined by Dr. Peter Raven, Director of the Missouri Botanical Garden, Dr. E. O. Wilson, an entomologist from Harvard University, Dr. Gardener Brown, an economist from the University of Washington, and Mr. Theodore Smith, Executive Secretary to the Consultative Group on Biodiversity, as a representative of private foundation concerns that are increasingly active in the area of biodiversity.

The task force presently is progressing with its technical review of several matters germane to biodiversity. No final date for its completion has been determined, although most such NSB studies last from 12 to 18 months. Most important is the fact that the task force has agreed in principle to develop a series of reports or statements as it completes a phase of its investigation. This, of course, will allow for more timely input of its findings into NSF's overall planning cycle.

The NSB does not, normally, conduct special reviews without the expectation that the results will guide program development at NSF. This study certainly is no different. It should be noted that biodiversity is not uniquely in NSF's purview. The charge to the task force explicitly speaks to international and national needs, provides the latitude to consult with other agencies and the scientific community, and calls for recommendations generally as well as for those specific to the NSF.

It is important to understand that NSF is the **primary** source of support for basic research by scientists at U.S. colleges and universities in the subdisciplines of systematic biology, population biology, ecology, and ecosystem studies which underpin understanding and the scientific questions within biodiversity. Overall, NSF support amounts to 75% of the total for basic research, and in key areas, such as systematic biology, NSF support accounts for about 95%. For critical geographic areas as well, such as in the tropics, NSF's fraction of support of research by college and university researchers is on the same order of magnitude.

Biodiversity and its management and preservation, however, encompass more than basic research. The NSB Task Force certainly will make recommendations about directions for NSF program development to follow. With their charge, however, they also will examine the broader management and other issues beyond the scope of NSF's mission.

- The Informal Science Education Program will work with the media, museums, science clubs, and youth organizations (such as 4H, Boys' Clubs, and Girl Scouts) to provide a rich environment for informal learning -- by parents as well as children.

- The Research in Teaching and Learning Program will sponsor investigations to expand our basic knowledge of the processes of teaching and learning mathematics, technology, and the sciences, and of the factors that affect success in the study of these fields.

- The Studies and Analyses Program will support the collection and analysis of data on science and engineering education issues and trends, and related policy studies and development, to point the way to further improvements in educational processes and outcomes both inside and outside the Foundation.

- The Young Scholars Program will involve talented secondary school students in activities designed to stimulate and maintain their interest in science, mathematics, and engineering, and help them maintain options that include technical careers.

AWARD SIZE

Question. The Foundation is requesting more than $1.2 billion for its disciplinary research programs and specialized facilities, an increase of 8% over appropriations in fiscal year 1988. Do you intend to use these additional funds to increase the average size of individual investigator awards? How large an increase do you anticipate?

Answer. NSF strategic long range planning has identified a need for a significant increase in the number of individual science project support awards (on the order of 25%) and a substantial increase in average award size (50 to 100%). The Foundation's intention and prediction for science project support for FY '89 is some growth in award amount, and minor growth in numbers of awards.

FY'88 was a year in which no award size increase was possible. For FY '89, accordingly, award size has the highest priority. The average increase, however, will be modest, on the order of 2%. Some programs, of course, will have larger increases, such as Computer and Computation Research.

Some growth in numbers of awards will occur, especially in science and engineering education programs and in the Foundation's many specially targeted infrastructure activities.

The number and size of these awards, of course, is contingent upon what is made available through the appropriation process, and what is approved by the peer review system.

QUESTIONS SUBMITTED BY SENATOR DOMENICI

GRADUATE FELLOWSHIP MANAGEMENT PLAN

UNDERGRADUATE EDUCATION

I understand that in my absence yesterday there was a discussion of the implications of NSF's recent international survey on the achievement of young people in science subjects. To sum it up, U.S. students in the 5th, 9th, and 12th grade levels perform very poorly in science compared to their peers in other countries. At the other end of the scale, I understand that NSF made a strong case that intervention is needed now in the secondary and higher levels because a shortage of Ph.D. scientists is imminent by the year 2000. I think we all know that the inadequacy of this Nation's mathematics and scientific base transcends all educational levels. Much needs to be done, but we must not lose sight of the fact that to reverse the trend of lagging behind other world nations in math and science, we must start at the bottom and work our way up.

Question. All this leads me to a question on the proposed treatment of graduate fellowships in the FY 1989 budget request. The NSF budget proposes to shift the obligation of funding for graduate fellowships from the fiscal year in which those commitments are made, usually the last quarter of each fiscal year, to the year in which tenure is "primarily exercised," or the following fiscal year. For those of us committed to enhancing precollege math and science education, this raises a concern. When the bill comes due for the $20 million shortfall in the fellowship program by FY 1992, will the precollege program end up paying the price?

Could you, Mr. Bloch, and perhaps Dr. Shakhashiri, comment on NSF's rationale for the proposed fellowship management plan?

Answer. The changes are being proposed to improve the financial management of the program. Currently, funds are obligated in the last quarter of the fiscal year. In the future, we propose to make the awards for each new class of fellows at the beginning of the fiscal year in which they actually start their studies. There will be no spill-over effect on other programs.

Question. Would any hardship fall on students receiving graduate and minority graduate fellowships with the proposed shift in the obligation of these funds?

Answer. There is no reduction planned in the Fellowship Program in terms of number of fellows or in overall expenditures. Every effort will be made to ensure that this plan is known to both institutions and Fellows. The proposed spending levels will have no impact on the number of fellows, their stipend, or the cost-of-education allowance.

Question. How would you propose to accommodate this shortfall in the outyears under the proposed plan?

Answer. As shown in the table below, by 1993 the project funding for fellowships is the same under both the current and adjusted payment schedule. The adjustment is an administrative change, phased in over three years. By 1992 the entire program will be on the new funding schedule.

FELLOWSHIP MANAGEMENT PLAN	FY89	FY90	FY91	FY92	FY93
New Fellowships	860	960	1060	1060	1060
Estimated Fellows on Tenure	1950	2280	2560	2750	2850
Current Payment Schedule	$37.9	$45.2	$50.7	$54.4	$56.4
Adjusted Payment Schedule	$24.0	$29.6	$33.3	$52.7	$56.4

Question. Can you assure this Subcommittee of your commitment to a strong NSF effort in precollege education when it comes time to pay for this change in policy if it is implemented?

Answer. Yes. The Foundation's future plans accommodate this change in the fellowship program, and funding requests will reflect these plans.

PREPARED STATEMENT

Senator PROXMIRE. Before we close today's hearing, I would like to insert a statement we have receive from Senator D'Amato. So, without objection, it will be inserted at this point in the hearing record.

[The statement follows:]

PREPARED STATEMENT OF SENATOR ALFONSE D'AMATO

Mr. Chairman, I commend you for addressing the important role played by the National Science Foundation in supporting basic research and education in all fields of science and engineering. A strong base of scientific and engineering knowledge is a prerequisite to advancing our nation's economic competitiveness.

The administration's fiscal year 1989 budget request for the National Science Foundation is $2.05 billion, an increase of 19 percent over the NSF appropriation for fiscal year 1988. This request carries forward three strategic themes of the National Science Foundation: education and human resources, strong disciplinary research programs and supporting facilities, and science and technology centers and research groups.

The Foundation is requesting $265 million in fiscal year 1989 to fund its education and human resources activities. I believe this request is needed to address the recent decline in science and mathematics achievement among our students, and to encourage more of our youth to pursue careers in math and science. If America is to remain competitive internationally, we must endeavor to improve both the quality and quantity of our scientific talent pool.

The Foundation's disciplinary programs and specialized research facilities represent the core of its support for science and technology in the United States. The fiscal year 1989 budget includes more than $1.2 billion for these activities. I fully support this request, which I hope will permit the Foundation to increase individual investigator award size, and to provide needed upgrades to instrumentation and equipment.

The fiscal year 1989 budget also includes approximately $447 million for the Foundation's research centers and other group research activities. This request includes

$150 million to bring on-line the Science and Technology Research Centers proposed in the fiscal year 1988 budget. I look forward to hearing from NSF Director Bloch on his plans for this new initiative.

I am encouraged by the administration's continued commitment to basic research and education in science and engineering. I believe our investment in these activities will pay large future dividends both in the development of new technologies and the improvement of our nation's competitive position.

Thank you, Mr. Chairman.

SUBCOMMITTEE RECESS

Senator PROXMIRE. The subcommittee will stand in recess until 10 o'clock tomorrow morning, when we will begin to take testimony from the National Science Foundation. The hearing will take place in SD–116.

[Whereupon, at 12:23 p.m. Monday, March 21, the subcommittee was recessed to reconvene at 10 a.m. Tuesday, March 22.]

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT-INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1989

TUESDAY, MARCH 22, 1988

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:02 a.m. in room SD–116, Dirksen Senate Office Building, Hon. Barbara A. Mikulski presiding.

Present: Senators Mikulski, Garn, Domenici, and Grassley.

NATIONAL SCIENCE FOUNDATION

STATEMENT OF ERICH BLOCH, DIRECTOR,

ACCOMPANIED BY:
- DR. MARY GOOD, MEMBER, NATIONAL SCIENCE BOARD
- DR. RITA COLWELL, MEMBER, NATIONAL SCIENCE BOARD
- DR. JOHN MOORE, DEPUTY DIRECTOR, NATIONAL SCIENCE FOUNDATION
- DR. BASSAM SHAKHASHIRI, ASSISTANT DIRECTOR FOR SCIENCE AND ENGINEERING EDUCATION, NATIONAL SCIENCE FOUNDATION
- MS. SANDRA TOYE, CONTROLLER, NATIONAL SCIENCE FOUNDATION

Senator MIKULSKI. The Subcommittee on Housing and Urban Development and Independent Agencies will come to order. Today, we will take testimony from Mr. Erich Bloch and his staff on the National Science Foundation budget for 1989. We know that the National Science Foundation is an important federal agency in stimulating research and development. Its mission, as we understand it, is to yield new ideas that become springboards for technological and economic development.

BUDGET REQUEST

The President has proposed a major increase in the NSF budget of $533 million, a 19-percent growth for fiscal year 1989 over 1988. The President has proposed a 20-percent increase in NSF's education and human resource programs and requests $150 million for 10 new science and technology centers.

The fiscal 1989 budget is ambitious, and the President wishes to make major increases while at the same time—and Mr. Bloch, I am sure you understand, we are limited by something called a 302(b) allocation, which is for the entire HUD and Independent Agencies, which means National Science Foundation is competing with EPA, or EPA is competing with you, Housing, Veterans Administration, and so on.

I think all of us share a concern with the way functions are allocated. For example, in function 400, the Transportation budget function, we have the Coast Guard in with Amtrak and subways. We would hope your research, which we will be exploring with you, is far more rational than the allocation of our functions.

So when we take a look at your budget, we know that we are really going to be looking at housing programs and environmental programs as well. While you are being proposed an increase, there are decreases in these areas. So we look forward to hearing your testimony.

I can tell you that I want to use this to get a clear idea of what you see as the objectives for the National Science Foundation, how you can assure the committee, particularly under the leadership of Senator Proxmire, that we are going to get a dollar's worth of research for a dollar's worth of taxes, and a sense, also, of national purpose among your researchers. As Dr. Colwell knows from my days in the House, I often raised questions related to research: Are we creating an intellectual framework in our society or a class of grant junkies where one person floats from one grant to another—kind of shooting up on federal dollars, where they are addicted to the grants? But we wonder what we are getting out of it.

The other issue we would like to hear about is the idea of moving research to development. As you know, every competitive critique or critique of our competitiveness has been quite stern in its observation that we are very good on the "R" but we are not very good on the "D."

So those are the kinds of questions I will have in the back of my mind as we look forward to your testimony and anyone else that you wish to make a presentation.

Senator Garn? Do you want to make an opening statement?

Senator GARN. Thank you.

Senator Proxmire and I both have a conflict this morning. The full Banking Committee, which we are chairman and ranking on, is meeting at the same time, so he is there and I am here for awhile, and, unfortunately, I will have to leave to go to my responsibilities up there.

I do feel very strongly that we have a great difficulty, particularly in this subcommittee, after more than a decade on it; in fact, about 12 years on it. Last year was extremely distressing to me, because we had great difficulty in the allocation process. In the area of function 250, which is research and development, science, NASA, all of that, we were shortchanged, in my opinion.

The reason we were is not because of the budget resolution; that was adequate and the President's request was adequate. It happened all within the Appropriations Committee. I believe we were treated very, very unfairly across the board in the HUD subcommittee by other committees. I tried very hard on several occasions to get what I felt was a reasonable allocation. I think the problem that we had was Senator Proxmire and I were too honest in our original presentation to the committee and presented a realistic budget in light of the budget difficulties that we had, and all of the other subcommittees requested large increases, in many cases, and then when we got to the allocations, we started taking percentage reductions.

We were penalized because we had been honest in our budgeting, and the same thing happened when we finally got to the summit. That presents both of us with great difficulties, because we have tried, over the years, when he has been chairman of the committee and I have, and we have reversed our chairs, to be absolutely honest in our request and yet to try to hold them, and then we have been penalized by the game that is played by the rest of the Congress.

I am not quite sure what to do about that, because I am not in a position, in light of the budget difficulties we have overall, to vastly inflate the subcommittee's budget so that we can take the anticipated cuts later on. By not doing that, we seem to get penalized. My major problem is not just a parochial one of trying to defend a subcommittee budget, but it is looking at the whole area of science and research and development and how sad it is that Congress is so good at funding things for the past and the present and so shortsighted at looking to the future.

Because it isn't just NASA; it isn't just space; it isn't just NSF alone; it is the training of engineers and scientists, math and science teachers. It is impossible for me to explain my distress about how shortsighted we are in this particular area. So that when we look down the road 10 or 15 or 20 years, that is when we pay, in this particular area, function 250, for what we don't do today.

Unfortunately, it doesn't show up by November 1988 or November 1990. Politicians don't get penalized for their shortsightedness in this area, because it is too long-reaching a program; too far down the road before you see the results.

I try very hard to point out what we have done on things that originated a long time before I ever was with the Senate, 10, 15, 20, 25 years ago, and the benefits that we see from it today. It is a difficult task, and we will do the best we can. But we do face serious budget allocation problems again this year within the Appropriations Committee and competing with those that are more immediately politically expedient, particularly in a Presidential election year.

All I can say is I still feel very strongly about this whole area of the future and what we are going to do in our competitiveness with training engineers and scientists and with our research and development. I am sure you understand that it is a difficult process.

Thank you.

Senator MIKULSKI. Thank you.

Senator Garn, in order to afford you every courtesy and the opportunity to answer questions, we are going to have you ask questions first. What is your timeframe?

Senator GARN. Why don't you just go ahead. I am interested in their testimony.

Senator MIKULSKI. OK.

PREPARED STATEMENT

Before you proceed, Mr. Bloch, we have received a statement from Senator D'Amato which, without objection, I would like to place in the hearing record at this point.

[The statement follows:]

STATEMENT OF SENATOR ALFONSE D'AMATO

Mr. Chairman, I am pleased to join you as this subcommittee continues its hearings on the fiscal year 1989 budget for the National Science Foundation. I also welcome back to this subcommittee NSF Director Erich Bloch, along with our other distinguished panelists. I look forward to hearing their comments on the current activities and future goals of the Foundation.

As we heard in yesterday's hearing, the administration is requesting $2.05 billion for the National Science Foundation in fiscal year 1989—an increase of 19 percent over appropriations in 1988. This request includes approximately $265 million for education and human resources activities, $1.2 billion for the Foundation's disciplinary programs and specialized research facilities, and $447 million for research centers and other group research activities. This request would place the Foundation on a funding track that would double its budget over the next 5 years.

I am encouraged by the administration's continued commitment to basic research and education in science and engineering. As Mr. Bloch pointed out in his testimony yesterday, our investment in these activities has a direct, long-term relation to our nation's economic well-being. I am looking forward to hearing more from our panelists about the role of the Foundation in fostering technological innovation and a strong base of scientific and engineering knowledge in the United States.

Thank you, Mr. Chairman.

DR. BLOCH'S STATEMENT

Senator MIKULSKI. Mr. Bloch, please proceed, and then if Senator Garn is still with us, he will go first on questions.

Mr. BLOCH. Thank you.

First of all, I want to thank you a lot, Senator Mikulski, and Senator Garn, for your comments. They are pretty much in line with our thinking, especially your comment, Senator Garn, about last year's budget allocation. I need to touch on that during my testimony.

Let me say one thing. I have a very lengthy written statement which was introduced into the record yesterday. I will refer to some of the charts which were attached to my statement and which you have in front of you as I go through my testimony.

But let me answer Senator Mikulski's question first by pointing out that the science policies expressed in the National Science Foundation's programs, and in our 1989 request, and as they were in our 1988 request, are really threefold: The first one is the development of human resources, because people are our most important asset, and that is one of our strong programs and our strong mandates which we have been stressing over the last few years.

The second major strategy element is the support for university basic research, because that is where the main source of new knowledge is and, as you know, universities in our system play a key role not only in education, but also in the generation of new knowledge.

The third element of our strategy is to link the universities more tightly to industry, exactly the point, Senator Mikulski, that you made before, with your interest in seeing what do we do with the new knowledge. How do we make sure that it is being used where it should be used; namely, in the service sector, or in the manufacturing sector, in government, defense, and so forth. So it is our effort to link the university more tightly to industry, more so than many of our programs first indicate.

HUMAN RESOURCES

Let me talk for a few minutes about the first item: developing human resources. The education programs of the Foundation over the last 5 years have been significantly increased and improved. If you look at your chart, figure No. 1, you see what has happened to us, a shift from about $16 million in 1983 to the $156 million that we are asking for in fiscal year 1989.

By the way, even in 1988, in a very tight year, as you pointed out, Senator Garn, this part of the Foundation received a major increase.

Most of our dollars are being spent on precollege education, about 70 percent; about 15 percent for graduate and postgraduate; and a new program which we have been mounting over the last few years—namely, the undergraduate program—is about 15 percent of these dollars.

More importantly, when you look at all the people we are touching with our programs, from high school students all the way to senior scientists—including precollege teachers, undergraduate students, and so forth—there is a very large number of people in 1987, about 48,000 people, as you can see in your figure 2, and with the new budget that we are asking for for 1989, the number would go up significantly to about 60,000 people.

So our programs reach out to a large number of people and also throughout this education pipeline from high school students to senior scientists.

The undergraduate program is a major part of our effort, and it is, in a sense, a relatively new part of our activity. I also want to emphasize one other thing. If you look at the total pipeline, from elementary school all the way to the Ph.D. track, you see, essentially, a tremendous amount of fallout of people along that pipeline.

Many of our programs are geared to that particular matter: identifying those leakage points in that pipeline and trying to mount programs that will help stem the outflow of people. This leakage is too great for the needs which we will certainly have in the future.

In addition to focusing on education in that particular sense, we are also focusing on underrepresented groups, such as minorities and women, both in the science area as well as in the education area. We also are focusing on underrepresented institutions, and some of the states which are not playing a major part today in science research or even education.

That is one of the major themes which we have been following over the last few years. I need to make one point which is relatively little known. That the National Science Foundation spends approximately 10 percent of the total dollars going to the bottom 10 states in science and research and development funding, compared to less than 3 percent for the top 10 percent. That shows our concern for broadening the participation of individuals and institutions, as well as states.

UNIVERSITY RESEARCH

Let me turn to the second item of our major concern; namely, university basic research. Obviously, better economic performance will come from a stronger university basic research capability, and I hope that 1989 is a year in which progress in this particular area can be made.

I want to point out, just as Senator Garn stated, the importance of this committee and its counterpart in the House with regard to the support of university basic research. In the physical sciences and engineering, and that is what NSF is largely about, physical sciences and engineering, this subcommittee is the principal supporter of academic basic research, providing about 74 percent of federal civilian support in universities in these fields, as you can see on figure 4.

Of the 74 percent, 81 percent is support provided through the National Science Foundation. So any kind of a change in this allocation process affects universities in a direct and serious way.

On the next chart, figure 5, you see essentially what has happened to us in this area in contrast to education. The support for research and related activities has not been rising in recent years. In fact, since 1985 the NSF research and related appropriation is relatively unchanged. There I think you see the effect on universities in a direct way, and obviously, the output of universities are delayed in time.

I want to stress the particular point about the importance of the allocation that this committee receives and that this committee, in effect, puts into place.

In nearly every field we support, the opportunities to make important advances outrun available support as a consequence of this flat budget. Superconductivity is one area that we stressed very highly last year because of new developments in that area. It is continuing this year. We are focusing on that very heavily in the Foundation, to the detriment of some of the other opportunities. Mathematics, biology, and biotechnology obviously are topics which are very important to the Foundation and very important to the nation.

American manufacturing has been on a decline. It seems to be making a comeback. We are focusing on that through our Engineering Directorate as well as through our Computer and Information Science Directorate in a significant way.

INDUSTRY/UNIVERSITY COOPERATION

Let me go to the third point that I mentioned, the linkage between universities and industry. Effective linkages among the various sectors is the third element of the Foundation's programs and budget request. It is especially important in the United States to focus on that linkage, because our research system is built on the research universities.

Research and education are tied very closely together, and that, I think, is a major strength of our system. But, as elsewhere, there is no free lunch. The drawback of our system is the tendency for universities in research to be isolated from those who are economically oriented, and we need to find explicit, and to force explicit mechanisms to make sure this does not happen and that results from laboratories flowing smoothly into industry.

We have been a leader in developing new ways to bring these two major players—industry on the one hand and the university sector on the other hand—closer together.

Our engineering research centers, which were started in 1985—and, by the way, both of your states have one engineering research center, at the University of Maryland and the University of Utah and Brigham Young jointly. The first were established in 1985 and have stimulated significant industrial and state support.

One of the prerequisites for a center is this close relationship between industry and the center itself. Each NSF dollar has been more than matched by industrial contributors and state support in all of the 14 centers.

Our budget for 1989 requests funding to extend that same concept to the science and technology centers, and we are asking for $150 million not to be spent in 1989, but to be spent over a 5-year period of time; that is, to fund upfront 12 to 15 of these science and technology centers.

A similar concept is used in the engineering research centers; namely, a joining together between industry and universities to single out a major topic of basic research, and it is basic research. The partners work on it together; people move back and forth across an imaginary boundary line between academia and industry, and through this connection, make sure that technology transfer does occur, that the right problems are being worked on, and that the benefits from the research flow to industry.

We have other programs that have a similar or the same goal. The Presidential Young Investigator Program focuses on the same kind of linkage between industry and universities. Many of the other programs in engineering, the industry-university centers—a smaller version of the engineering research centers, of which there are about 45 or 50—are similarly positioned.

Let me make sure that I make it clear that centers are not the only way, obviously, to do research. In fact, the preferred way of doing research is individual grant research, and the balance between centers and individual grants is one of the things most on our minds to make sure that we have the right balance; it is not one or the other.

PRIORITY SETTING

I need to say, by winding up, one more thing, which both of you were addressing before; namely, priorities. Within the Foundation, there is a constant need to make programs fit the available resources. We cannot accomplish everything. We must constantly reassess existing projects in order to make resources available for new ones.

It is more difficult in a tight budget year, but it is also more necessary. For example, we had to defer a number of programs and had to cut back other programs when we found out what our 1988 budget really was compared to our request.

Some of these priority choices produced reactions in the community, and that is how it should be, by the way. But the reaction is really an indication that we are making meaningful choices and not just increasing or decreasing everyone's hand by an equal percentage, which I think would be a mindless action, and would, in the long haul, neither serve the nation nor the scientific community, nor science.

The 1989 budget was developed with priorities in mind. Our first priority, as I mentioned before, is people, both in developing human resources and in research support, and we stress the value of the individual investigator; we also recognize the value of groups and centers.

The Congress has the same problem. We understand that there are needs in science programs, and Senator Mikulski, you enumerated many of the areas this committee is equally concerned about and worried about, housing and the VA and so forth. I know that you must judge their relative merits.

The Business Week issue of yesterday talked about a civil war between science projects. But I would point out that what was referred to was the SSC, the space station, the doubling of the National Science Foundation budget, the human gnome project, and probably a few more that are lurking somewhere in the background.

All these programs have merit. But I would want to point out that nearly all of these programs, nearly all federal missions, if I wanted to generalize further, depend on scientific and engineering expertise and will benefit from new knowledge and technologies. This is especially true of the programs I cited. NSF provides the base on which the success of these other programs will be built.

We are providing the people and their education. We are providing the basic research in many of the fields important to utilizing such tools as an SSC and a space station.

Providing that basis, really, is what the Foundation is all about and what we are trying to accomplish through our 1989 budget. That is why I strongly believe our request needs and deserves your full support. Thank you very much.

Senator MIKULSKI. Thank you, Mr. Bloch.

Senator Garn, why don't you go ahead and question the witnesses?

Senator GARN. Thank you very much. I appreciate your courtesy, but in the interest of everybody's time, I will just submit some questions in writing for your response, and I will run up and try and help the good Senator in the Banking Committee. Thank you very much.

Senator MIKULSKI. You built a firewall between banking and all these issues.

Senator GARN. That bill hasn't been reported. This is community reinvestment this morning.

Senator MIKULSKI. Actually, I think we ought to talk about it. I think if we are going to give banks moneys, they ought to have a serious sense of obligation.

Senator GARN. I will be happy to talk to you about it, but I don't think Mr. Bloch wants to hear about banking. Thank you.

OBLIGATIONS OF RESEARCH SUPPORT

Senator MIKULSKI. Actually, Mr. Bloch, what you will hear about is the theme I just raised somewhat in passing with Senator Garn, which is, we make so many federal dollars available and so many federal programs, and then the beneficiaries of those programs don't have a sense of social obligation.

There is a housing program called UDAG's, and they are now viewed as an integral part of financing city growth. Developers see them as a mandate that they should get from a Mayor Schmoke, but then they don't have any sense of social obligation when they get the federal dollars.

We are about to expand banking powers at a very significant level. I think if you give people more power and concentrate well, you ought to have the means to make sure that those who are left out have access to wealth.

That is why, when we talk about research money going to your graduate students, that there should be a sense of obligation. The money just doesn't come in; it is supposed to serve a public purpose: research is not only for private investigation and the pursuit of knowledge, all of which are quite exciting, but that it has got to serve a national purpose.

Dr. COLWELL. Could I speak to that?

Senator MIKULSKI. Yes.

Dr. COLWELL. I do not have any prepared testimony, but I was very interested.

Senator MIKULSKI. It is a theme that you are going to hear me raise all the time.

NSF SPECIAL PROGRAMS

Dr. COLWELL. Right. But I was very interested to see just what the NSF did for, let's say, the University of Maryland and for the state. For example, I was flipping through the awards, and there is an award for women, minority, and handicapped engineering research assistants at College Park.

The project is a study on liquid systems. It is just pure research, but it is an opportunity for handicapped students in engineering.

There are three awards.

Senator MIKULSKI. An opportunity for what?

Dr. COLWELL. For doing research in engineering and for training for the handicapped in engineering.

Also, there are minority research centers at the University of Maryland, Eastern Shore, a Research Improvement in Minority Institutions award to the University of Maryland, Eastern Shore, and an award to Morgan State.

I think these are very critical, because it brings people into the mainstream of science and engineering. Also, there is an award for research opportunities for women in engineering. That is critical.

Senator MIKULSKI. Dr. Colwell, I know we give out the money. I am worried about the person at the other end who gets the money and what their attitudes are once they get that money. Do you follow me? I am not saying, we are not here to say that these grants and so on are not worthwhile. I am sure UDAG's are worthwhile. I am sure Glass-Stiegel and its new efforts will have benefits.

I do believe that the other person at the end of the line does benefit—it is great those minority students are getting that money.

Dr. COLWELL. Well, it is not just a matter of getting the money, it is receiving an education and getting trained so as to perform in society.

Senator MIKULSKI. I understand that, but you see, in our quest for individualism, we have lost a sense of civic virtue, and what de Tocqueville called habits of the heart.

Dr. COLWELL. I understand what you are saying. I think that there are benefits in funding interdisciplinary research, which provides interactions and a working together in forwarding knowledge. I think the Engineering Research Center has been a very effective way of translating knowledge into applications in society. I think that the interactions with industry has proven very, very effective, at least at the Engineering Research Center at College Park.

I purposely looked through the records to find out how the funding was applied, because as you say, it is all well and good to make awards.

Senator MIKULSKI. It is not only the application, but I am trying to get at something a little more profound.

Mr. Bloch, if I could come back to you, and I know Dr. Colwell has just given some examples on the increase on science and engineering education, could you give us some examples on how the National Science Foundation at local levels is increasing science education, some practical things that we can picture?

Mr. BLOCH. Right. Let me make some general points first and then I am going to ask Dr. Shakhashiri, who is in charge of that particular area, to give you examples. Some general comments I want to make are the following. You realize that in the totality of funding for education and especially precollege education, whatever we spend, it is a small portion, because most of this responsibility is concentrated, obviously, in the localities, in the states, and in school districts.

So the best we can do, the most important thing that we can do is to be a catalyst for new approaches and new ideas, and then, hopefully, somebody will pick up what we are developing and promulgate it across the United States.

That is what we are trying to do in many areas. We are trying to do that in the development of new curriculum for science and mathematics education at the elementary and high school levels.

Science material gets obsolete; new ideas are always coming forward. So we have a set of major programs, then, on education of the teachers themselves and linking them together so that they form a community and communicate among themselves some of their findings and experiences.

In addition to that, while we are setting up these programs, we want to involve local school districts, and we have done that; getting support from the states in addition to our support so that we are not funding the total bill. And we are also trying to involve industry, meaning that particular industry that is important in this endeavor, mainly the publishers of books and materials.

We are getting their support now in terms of dollars, as well as later on, once these materials have been developed.

That is essentially the mission that we have. Now Let me ask Dr. Shakhashiri to give you some examples.

Dr. SHAKHASHIRI. Senator Mikulski, we have a number of significant examples that involve participation of academicians working closely with local and state educational agencies to develop, for example, kits for students to use and to give them hands-on experience_with science, to try to be sure that their attitudes toward science, especially at the middle school level and at the elementary school level, are able to be encouraged and nurtured so that their approach to science and to mathematics is encouraged rather than extinguished.

We have many examples where statewide programs have been initiated by grants through the National Science Foundation in different parts of the country, again, involving people from institutions of higher education and state agencies. We have major efforts to develop elementary science and elementary mathematics curriculum materials involving partnerships between academic developers in a school district.

Senator MIKULSKI. Could you give me the name of one town and what happened in it or the name of one publisher?

Dr. SHAKHASHIRI. Yes. We have, for example, a project at the Educational Development Center in Boston that involves a publisher, Sunburst, and school districts that are in the San Francisco area, in Pittsburgh, and Philadelphia. They are involved in the development of the material and the testing of the material; the publishers have agreed to devote a fraction of their gross income for teacher training activities when the products are in place.

We are in contact with chief state school officers to see to it that these materials, then, are made available to the states for their optional use.

We depend, if I may point this out, a great deal on strong advice that we get from a number of individuals, including, in this particular case, the chief state school officer from the state of Maryland, who happens to be a member of the advisory committee for the Science and Engineering Education Directorate, Dr. David Hornbeck.

We have many activities that are involving middle school teachers and elementary school teachers. We have, for example, a grant at Hampton, Va., aimed at attracting minority students into careers of teaching science and mathematics. This is one of nine projects that we have all over the country aimed at stimulating and motivating minority students to consider careers in the teaching of science as well as the careers in science and mathematics. We can provide for the record, Senator, a substantially long list of these activities.

OTHER GROUPS

Senator MIKULSKI. No; I was really trying, since I am a social worker by profession, to hear the stories, the examples, and I think it helps to picture it. If I could, I would like to share one with you in terms of—I was thinking there is obviously a great deal of work going on at the elementary and middle school which ties in right with the child's developmental process. That is when Eric Ericson will tell you that children would most like to be little professors and are interested in this.

I would suggest that you might actually want to reach out to the scouting community, because while we are looking at schools, I think that one of the areas where children really get involved in hands-on activity is where they are scouting, with badges in environmental and physical science or something.

I would like to just go to college a minute and then go on to some other questions on what you are doing to improve education at the undergraduate level. The story is of five young men from Maryland, if I may, that I met with who had the benefits of a very fine school system in Montgomery County. These young men all graduated from the Montgomery County school system. They were honor society boys; they were champion athletes; they were scholar-athletes, and they all went off to fine schools like Michigan, Duke, the Naval Academy, and they all wanted to be engineers.

When I spoke to them at the end of their first semester of their sophomore year, only one young man was still in engineering, and he had changed to industrial engineering. These are not young men who are laissez faire or self-indulgent; they were what you would look for in your colleges, not only top SAT scores, but kids that have themselves together.

ENGINEERING EDUCATION

When I talked with them about why they left engineering because that was their goal—one was chemical, one was electrical—they said that engineering in college drove them to frustration.

Mr. BLOCH. Frustration.

Senator MIKULSKI. Thank you, Doctor. Your linguistic research was very on point. [Laughter.]

Mr. BLOCH. That is because I am an engineer. [Laughter.]

Senator MIKULSKI. Well said.

I was so upset in hearing this, because these are our best and our brightest, and then we have kind of factored out: Did they get the right stuff in elementary school; gender distortion; all of those kinds of things, and then here we were, and I thought, "We have now lost something."

As I said, the young man who stayed in stayed in industrial engineering. My question is whether they just felt that their teachers were about as broad as the microchips that they used, and these were young men who really were interested in science, science as a source of excitement; that the way they had been taught, science was a frontier, and they were all set to dig in; they had a sense of competitiveness. They were eager. So that is what they said, and then they came into this very narrow world in which they just felt their passion for knowledge was being sapped out of them, so they moved into humanities. They are going to make very fine lawyers and MBA's, but we don't need a transactional society. I just thought I'd share that. Would you comment?

Mr. BLOCH. I am glad you brought up this very good example.

Senator MIKULSKI. I think this goes to the core of what we are talking about.

Mr. BLOCH. I recall many things and people getting turned off, akin to this particular case, at the undergraduate level, but I am sure it happens, also, before people enter college.

What to do about it is a very difficult question, as you realize. I think one of the things that needs to be done, and we are trying to do it in our undergraduate program, is really look at the curriculum; make the curriculum broad, especially in engineering. There is so much to do, resources which you couldn't have found when I went to school. The task is a systems approach to engineering, where you bring into consideration not only the engineering questions, the pure engineering questions of the design of a bridge and so forth, but those of the whole environment: the effect on the environment and so forth. That system support through engineering is something which has not been taught, which is not being taught today.

CURRICULUM DEVELOPMENT

We are trying—and that is one of the reasons why we are focusing on curriculum development in undergraduate education for engineering—to bring a broader kind of a viewpoint right into the classroom at the undergraduate level. It is too late when you do it at the graduate level. The examples that you are citing show that the people you are trying to capture might no longer be there. We are seeking a change that is a change in orientation, that is a change in the development of the curriculum material. It is a change in the way engineering has to be taught.

The focus in the past of not looking at the total design or the design in general, I think, has taken away a lot from our engineering schools, and that is why we are focusing on the undergraduate education area, not only in terms of curriculum development, but also in terms of instrumentation. The lack of instrumentation in the undergraduate laboratory today, in engineering in particular—but also in biology, in chemistry, and in physics—doesn't give the right spirit of the sciences or of engineering to undergraduate students. Just looking at the textbook is not enough.

Senator MIKULSKI. Do you feel that you have these curriculum reviews ready to go in universities?

Mr. BLOCH. No.

Senator MIKULSKI. Do you feel you are developing them now?

Mr. BLOCH. We are at the beginning.

Senator MIKULSKI. How long do you think it is going to take you?

Mr. BLOCH. A long time. These are 3-year, 4-year, and 5-year efforts on our part. Then how fast they get promulgated throughout the system is something else again.

Senator MIKULSKI. That would take me to something else. Let's just assume this.

Would you think that the National Science Foundation should make a condition for grant recipients that they, then, move into new ways of thinking since they are getting new moneys?

Mr. BLOCH. I don't know how you can tie it quite in that particular way, but we have thought a number of times of asking the questions that are really at the base of your question; namely, how much teaching are you doing, and also, how much undergraduate teaching are you doing?

That is something that we are looking at. In fact, the chairs of our advisory committees come together once a year, and that is one topic we have put in front of them; namely, the involvement of the principal investigators or the researcher with undergraduate education.

Dr. MOORE. Could I add one point to that?

Senator MIKULSKI. Yes.

Dr. MOORE. There is a related program that I think is addressing this problem, the Research Experiences for the Undergraduate Program we have put in place this year and hope to expand next year. This activity will draw the attention of investigators to their opportunities and responsibilities in this area.

FUTURE WORKFORCE

Senator MIKULSKI. Well, one of the things I am thinking about, and we won't cover all this in this territory, and I don't want to say just that, but I am very much concerned about the issue of workforce readiness and the fact that by the year 2000, we will have gone, demographically, from a labor supply in our country to a labor shortage.

The good news is we could have full employment in our society. The even better news is that if we make these investments now, and there is only 12 more years to go, we could have an astounding society.

Then my question is: How can we use the National Science Foundation as an important tool for a national purpose of getting kids ready for the future? I know you have done an excellent job, Dr. Colwell, in promoting women and minorities in science and engineering. Ordinarily, we would delve a great deal into that area. We have examined the record.

You have made important strides. We thank you for that. It goes to this overall issue.

Could you tell me, as the National Science Foundation looks at its mission, does it see it in terms of this work force readiness issue?

Mr. BLOCH. Absolutely. In fact, that is one of the major issues which we consider when we put our programs together. Education and human resources is what I called it before, and it is essentially making sure that we are preparing people for science careers early enough so that if they choose to go that route, they have the capability of doing so.

Today, many students don't have that kind of a choice in front of them, because they have not been trained in high school. It is too late when you get into college.

Senator MIKULSKI. This takes me to another matter.

Dr. COLWELL. Could I add a little bit of information?

Senator MIKULSKI. We are going to have to really move. This leads me to another matter. Dr. Colwell, if you want to add something, we would be happy to have it for the record.

Dr. COLWELL. I want to make the comment that it is very important to train the graduate students, and there are a number of areas of support that I think is critical to the next generation.

STUDENT EXPERIENCE

Senator MIKULSKI. Coming back to this issue, though, of work force readiness and the issue of co-ops, I happen to believe that when students see what they could be doing in the future, that there is a life after the thesis or the dissertation or the diploma, that is what gets you excited. No matter how exciting you make textbooks, these are rather weighty opportunities. We know that.

This, then, goes to the coordination between the National Science Foundation, other federal agencies, and whether those are the kinds of things we should be looking at. For example, not co-ops, but cooperative education. There is nothing magic about finishing college in 4 years. If you thought you could do it in 6 and reduced your debt and worked at the National Institutes of Health or worked over there at the National Bureau of Standards while you were at the University of Maryland and you were solving engineering problems and going to school, that would be just fine. Do you think I am on the right track here?

Mr. BLOCH. Surely. That certainly has a lot of potential. By the way, it is being used quite often. Many universities, for instance, employ undergraduate students in their laboratories. They employ them because it is cheap labor, No. 1; but it is an educational process, on the other hand, a very important educational process. As you know, many of the national laboratories have summer courses, and employment for people, undergraduate students and so forth, high school students and what-have-you. I think you will see that that is going on today.

It is going on to the extent that it should. What Dr. Moore just pointed out is that our programs are trying to get high school and undergraduate students acquainted with research while they are still in school, during summer, or during the school year, depending on the circumstances.

Senator MIKULSKI. I am going to pursue two more questions and then return to my colleagues. We will have to adjourn the hearing at 11:30. I think we have the sense that we need boldness, and we need to have a sense of urgency.

As I understand it, the scientific mind and the scientific students of science, they want hands-on experience; they don't want to read a novel about science. They like laboratories; they like being out in the field; they like getting involved. They are not dispatched observers. In fact, though that is a key tool of the scientific method, they like observing in a real situation, and I just feel that might be a source for hands-on training.

Because we are going to be facing a very tight budget crunch, we are going to ask you, really, to give us, as you review your budget, a list of priorities and must-do items. We would like you to provide the subcommittee the order of the priority of the major initiatives you propose for fiscal year 1989, knowing that you might be able to do it all, but we would like to really hear your recommendations in terms of the list.

PRIORITIES

Mr. BLOCH. Our total budget is a priority. [Laughter.]

In all seriousness, it was not put together in a haphazard way. It was not put together to throw everything, including the kitchen sink, into it. That wasn't the point. There was a lot of weeding out going on. But what you are seeing in front of you is essentially a priority program. Less than that, and we will have some major problems.

For instance, in 1988, the science and technology centers moved to the right. We just couldn't undertake that new initiative. This will not happen again in 1989, so that is certainly one of our high-priority items. Obviously, there is what we just talked about, undergraduate education. We couldn't do all of our undergraduate education programs envisioned for 1988 with the 1988 budget. We cut back on those. We didn't cut them out; we cut back on them.

Many of the programs in the disciplinary areas had to be cut back. That will have to happen again if we don't get our 1989 request. I hope not. What you see is a pretty well-balanced set of programs, one which balances centers with disciplinary research, education with research, science with engineering.

Senator MIKULSKI. We understand that, Mr. Bloch. But also, we are going to have to even make tougher choices in this allocation, and we would really like that kind of a framework. We are not saying that anything is not important. That is not the purpose of this.

But originally, when the Chair asked these long questions, we weren't joined by her Republican colleagues. We would like to now yield to Senator Grassley, who was here. Is that OK?

Senator DOMENICI. Fine with me.

Senator MIKULSKI. Then Senator Domenici.

Senator DOMENICI. He told me it was going to be short. [Laughter.]

REGIONAL ECONOMIC DEVELOPMENT

Senator GRASSLEY. Before I ask a series of questions dealing with the subject of economic development, and I am well aware of the fact that all of basic research has something to do eventually with economic development and the things that Senator Mikulski was talking to you about, jobs and people's careers and all that, I am well aware of that.

So I am picking up in an area that emphasizes the word "regional" economic development. Let me say that as I approach people like your agency that is involved in research in close association with the academic community as well as the corporate world, let me just say in my state, for instance, a bipartisan effort from the legislature, which is Democrat, from the governorship, which is Republican, to get our universities more involved in economic development.

That is a very controversial theme within the university community, some of the university saying, "Yes, we are going to be doing that, and we ought to be doing it," and frankly, I think they are moving in those directions, but others are resenting that. I am aware of all those arguments.

What I want to explore with you, and I will get within that context and get to my first question, what is the role of federal science funding in affecting regional economic growth, and I am even prepared if you tell me that it shouldn't be a factor at all or it is totally a factor. I just want you to lay it on the table.

I am not here to have you make me feel good. I just want to know where you are coming from.

Mr. BLOCH. I won't give you either of two extreme answers. I think that the Foundation has a responsibility to do two things, and I made that point a number of times before.

First of all, we have the responsibility of making sure that the United States is at the forefront of scientific discovery and engineering research. But we also have a responsibility of making sure that participation in that endeavor is spread throughout the United States for exactly the reasons that you are citing, to the effect that all these things impinge on economic development, either in a direct way or in an indirect way. So we have both of these responsibilities.

Sometimes these two goals can come into conflict with each other, at least you will hear that from time to time. Our merit review system is set up to take all these things into consideration. True enough, the first criterion for merit review is the excellence of the proposal itself, the excellence of the research and the potential excellence of the results of the particular research.

But merit review also measures, in each and every proposal, as one of the requirements, what does the proposal do not only for the individual science area itself, but for the enterprise of science itself. Does it broaden it? Does it narrow it? Does it affect that institution? The review also includes relevance, the relevance of the particular research not only to science, but to the rest of society. It also includes institutional building as a major criterion for evaluating.

So you see, we are very broad. In a sense, we are measuring and evaluating these parameters. In addition to that, we have certain programs, and we mentioned some programs yesterday, I think, when you were here, Senator Grassley. The EPSCoR Program is a program which was definitely aimed at exactly what you are talking about; namely, enhancement of regional scientific capabilities. Here we singled out some states that were at the bottom with regard to participation and capabilities in science and tried to bring them up.

We have done that over the last few years. We are in the second round of that one right now with eight states. Some of the states that we had before, such as South Carolina and Oklahoma, that we talked about yesterday when the Senator from Oklahoma was here, have particularly benefited from these programs.

TECHNOLOGICAL TRANSFER

Senator GRASSLEY. Could I ask for your help, then? Generally, how would the U.S. scientific community go about picking projects, picking those things that are going to be real winners that have a potential for generating economic activity? What do you see as kind of the essential ingredients in that sort of recipe?

Mr. BLOCH. Let me focus on one particular program.

Senator GRASSLEY. You are using this as an example that would answer my question?

Mr. BLOCH. Yes.

Senator GRASSLEY. OK.

Mr. BLOCH. Engineering research centers.

Senator GRASSLEY. OK.

Mr. BLOCH. The engineering research centers program has as one of its criteria the participation of industry in these centers. Now, it is a community which proposes the particular subject. A university in a given case is, together with industry or by itself, and then getting support later on from industry—that can happen—proposing the particular subject matter and coming forward with these proposals.

We have many more proposals than we can fund. As a consequence, you see, about 14 of these centers that have been established over the last 3 years. In total, within the same time period, we got 200 proposals. The list of proposed topics covers systems engineering which we just talked about; combustion engineering, large-scale building construction, manufacturing of biotechnology materials, composite materials research, and ceramics research. These are all important subject matters that have to do with industrial competitiveness, each one.

Do we have, in every area that is in trouble—and being talked about today—from other countries, do we have in every area a center like that? The answer is, no, we don't, because we don't have the wherewithal to do that.

We are not picking these topics. I think it is the worst thing we could do is pick topics of this sort. But I think the topics are coming up from the knowledge of what the research opportunities are and the lack of capabilities are, and together with industry the universities are coming forward with their proposals.

SENATOR GRASSLEY'S QUESTION AND ANSWER

Senator GRASSLEY. Madam Chairman, I am going to submit my last question for an answer in writing.

Senator MIKULSKI. Thank you very much.

Senator GRASSLEY. It will follow right on with this discussion. I would like to have it inserted at this point.

Senator MIKULSKI. Without objection.

[The question and answer follows:]

QUESTION SUBMITTED BY SENATOR GRASSLEY

REGIONAL ECONOMIC GROWTH

Question. Have we realized our potential in terms of science-driven regional economic growth? If not, what are the shortcomings (what can Congress do to optimize regional economic growth from science)?

Answer. While it is clear that regions which are science intensive have done well economically, there continues to be great unrealized potential from science-driven regional economic growth.

Universities are important to high technology economic growth, both as a factor in location decisions, as generators of ideas and, more importantly, as producers of skilled people. NSF is a major funder of university research, but has learned that this necessary role is not sufficient to the realization of science's full potential. NSF's special research activities—in its science and technology centers, and engineering research centers programs, for example—respond to this situation. So, too, do NSF's direct efforts to build an academic science capability within the states, the EPSCoR Program.

There are many barriers. One is the multiplicity of demands on limited state and local budgets. Resistance to institutional change is an additional problem. Another serious obstacle is lack of patience; there are no quick fixes. There needs to be more change in perspective so that local community leadership does not sacrifice long-term potential for higher quality growth to short-term growth in employment.

Science is particularly helpful to economic growth when universities and industry work together toward a common goal. This means sharing people, equipment, and ideas. This means that states should act as a convener of resources, a broker, and should consider education as well as industry in their economic development plans. This means risking the discomfort of changing tradition so that together with government, universities and industries will commit the best they have to offer toward the mutual solution of shared problems.

The development of local scientific capability has been the result of both local resources, and of government research funding. While the Congress should continue to support government research, a companion task is the promotion of a good general economic climate, which will permit localities to build upon their comparative advantages. Traditional infrastructure—transportation, schools, housing—is also important, and is significantly affected by many Federal programs.

The Congress also has a great opportunity to inform its constituency what regional economic growth from science means, and how it works. Without understanding by the general public, and particularly by the state legislators who set budget priorities, there can be only limited progress.

Another leadership role could well be to gain understanding that states should stop competing among themselves, and that regions must build on their strengths.

BUDGET PRIORITIES

Senator Mikulski. Senator Domenici?

Senator Domenici. Thank you very much, Madam Chairman.

Mr. Bloch, let me first, as we wind down this hearing, compliment you and NSF. Let me personally for this record, and it won't be the last time, I am sure, because we are going to debate your proposals in the Appropriations Committee and on the Senate floor, commend you and NSF. Even in these periods of difficult budgets, I think you are on the right track.

Frankly, I think we have all missed the boat this year. The President deserves a great deal of commendation for his budget. As a matter of fact, if you look at it, it is really a very visionary budget for the last year of a President's term and in very difficult budget times. Why do I say that?

We have only limited discretionary resources, and if you look at where the President put increases, he went for the future, not for the past. We are not going to get it done, and I can sense it, because you cannot increase all of the areas that the President wants increased without decreasing some areas that many around here don't want decreased.

I mean, you can't increase NSF unless somebody seriously considers reducing mass transit subsidies by $1 billion. I sense that we are going to be involved in the rhetoric of wanting to make sure our kids can get to school when really, the mass transit subsidies we are talking about don't have very much to do with it, but we will be talking that way. In any event, when you look at the NSF budget doubling over 5 years, the National Institutes of Health and other critical areas being increased, and funding for the superconducting supercollider, whether one likes it or not, the budget request is extremely futuristic. The explanation in the budget is dynamic and if we had the resources, the President's statement on the supercollider in terms of physics and exciting young people to get involved in science is right on the mark.

But realistically, those of us who support the kind of increases the President has proposed and the kind of cuts needed to accommodate those initiatives even if we favored all of it, couldn't win all of the increases because we are not going to be able to win all of the cuts. And if you have $166 billion to spend in domestic discretionary programs—that is the summit cap amount—you have to cut something and cut it rather substantially.

Education is increased dramatically, and I want to say, again, the President is right on. He has a $900 million increase for a new worker retraining program, and if there is anything we are all aware of, that is an absolute fact of life today, it is change. Change is occurring so fast that people are fearful; it is not that they don't have jobs; it is concern about keeping up with the changing job market.

We have an exciting futuristic budget before us. I am going to try my very best, in the Appropriations Committee allocation process, to get this subcommittee's allocation as high as possible, but I am sure we are going to have other members not wanting to cut their subcommittee allocations.

PH.D. RETENTION

Having said that, I have two ideas that I wanted to throw out to you. This does not have to be for the record, it can be private, but I would appreciate your thoughts about them. It seems to me that in the student aid program of the United States we ought to change something. I think we ought to promote the retention of Ph.D.'s in academia. First, we should promote going all the way to a Ph.D. among undergraduates; and second, promote keeping Ph.D.'s in our universities for a little longer as teachers.

I don't have any fantastic ideas, but I throw out a suggestion that we ought to change student aid programs so that students are encouraged to get a Ph.D. and then encouraged to stay on by writing down the loan gratuitously for time spent in the teaching profession.

So if you borrowed $28,000 and you want to teach as a Ph.D. for 4 years, maybe we ought to conclude that that 4 years would write your loan down $5,000 a year. I would appreciate your thoughts about that sometime. I think we ought to seriously look at it.

Senator MIKULSKI. Senator, that is an excellent idea.

Senator DOMENICI. It is not a total solution to this problem, but it is a somewhat exciting approach.

Mr. BLOCH. All right.

EXTENSION SERVICE MODEL

Senator DOMENICI. I have another idea that is somewhat more intriguing that I want to briefly describe. I will present the written proposal to you as well, and I would appreciate your thoughts on it. If there is one thing that has dramatically affected education in the United States in a way that hardly anyone appreciates, it is the land-grant colleges.

I believe the legislation setting up these institutions was truly landmark legislation. If there is one thing these colleges have done extremely well, it is using the Extension Service to get scientists into the field to help agriculture and everything related to it. We have a suggestion from a very distinguished academician that the time might be right for the creation of what I would choose to call and he calls engineering extension service centers.

I don't know exactly under what agency such centers would be created; maybe yours. The notion is, Mr. Bloch, that there are many small businesses that cannot afford, nor is there available, engineering and scientific expertise, both because it is costly and because it is just not available. The idea of the engineering extension service, while not fully flushed out, would be to use centers within universities manned by engineering and business schools to extend a service of engineering consultation and entrepreneurial assistance to small businesses that can't otherwise afford it.

I would very much like your views on it. It may very well fit within NSF. My intuition is that if people like you and others could put some flesh on the idea, it would sell like hotcakes in the Congress. The issue is: Is it meaningful, and will it get anything done; not will it sell. I believe that the concept of the extension service is understood as being a valuable exchange between academia and business, so that anything modeled after it that makes sense would be successful. It would solve some of the problems of regionalism, because it would be available almost everywhere.

I realize there are problems to be addressed. I understand there is no symmetry between the scope of the two programs. The customers are different among other things, but I would like you and your people to take a look at the proposal. I might say, Senator Mikulski, that if we get anything put together, I intend to share it with a number of Senators, because I think it is a rather exciting idea. So I don't ask for me personally, but for all of us.

Senator MIKULSKI. Excellent. Excellent, Senator.

Mr. BLOCH. Thanks, very much, Senator, for the two suggestions. We certainly want to take a look at them. I don't want to give you an off-the-cuff response, obviously.

Senator DOMENICI. Of course.

INDUSTRY/UNIVERSITY COOPERATION

Mr. BLOCH. But let me make one point on your second proposal. There are a few programs that are really focusing, not quite in the way you are saying, but in a similar kind of a way, on the problem of helping industry through academic interaction. One program that you are familiar with is the IUC program at the National Science Foundation, which makes it possible for a laboratory in a university or a PI in a university and a company or a series of companies in the same industry get together and formulate a joint program, mostly in a very well-defined area, a narrow, well-defined area, but an in-depth kind of a program that can last up to 5 years.

This program pursues a combination of federal funding through us and industry funding from these participating companies. It might not be dollar funding; it might be people who work on the common problem, and in this way exchange information. That is similar in tone.

Senator DOMENICI. Similar in tone.

Mr. BLOCH. That is not, obviously, the same thing that you are describing in that service center idea. So we want to look at that one and respond.

Senator DOMENICI. It may be that in order to flesh out the concept, you may suggest that we run a pilot program for awhile, because we aren't quite familiar with the human resources and how they can best be utilized. It does seem to me it could be a bargain, because you would really excite an already existing group of people.

They may not have enough time to do all of this, but perhaps by adding one person of competence, you will get part-time service from six or eight.

Mr. Bloch. Right.

Senator Domenici. The concept, as drafted, does not involve business schools, and I would urge that when you look at it, you consider that.

Mr. Bloch. You see, the other thing which we have been discussing among ourselves is how we can inject something of the sort you are describing into the SBIR Program you are all familiar with. The SBIR Program gives funds, federal funding, through agencies such as the National Science Foundation to individual small companies, and the design has to be for a very small, start-up project.

How we can insert into that program some of the academic knowledge base which might be important and which might have a bearing on what you are saying?

BUDGET REQUEST

I appreciate your comment on the President's budget. Indeed, for the last year of his administration, it is a very forward-looking budget. But let me just remind you that of all of the programs he mentions, the one he mentions first is the doubling of the National Science Foundation budget, and I hope that has not escaped you. [Laughter.]

Senator Domenici. It has not. I mentioned it along with the others, and I tell you, honestly, I would do it from my standpoint. I would find some money and do it, but I am being realistic. We tried last year. We came up $200 million short. We gave you every bit of money left over in the subcommittee, as you know, and it was good fortune that it was $20-some million. We got it right at the end of conference, or we would be in even worse shape, but we will try our best.

I am just going to quickly mention the very long baseline array. You know my concern. I am very hopeful that you are going to keep it on track.

Mr. Bloch. Yes.

Senator Domenici. Second, we have a little bit of everything in our state, including astronomy. As I understand it, you are, once again, engaged in a review of the overall program. Every time we have had a review of astronomy, we have had a negative effect on a couple of facilities in our State. [Laughter.]

So I am wondering if you are being selective, or are there other disciplines undergoing similar intensive review?

Mr. Bloch. If you listen to the noise in the press you would have noticed that the high-energy physics area is under a similar kind of review. Let me make two comments first, since you brought it up. The VLBA, we wanted to finish that particular program, as you know very well. We are on track in doing that. It is two antennas per year. We are on schedule with those two antennas per year.

The program has been dragging out, as you know, beyond its original time line. We hope to finish it by 1991, and we are on track to do that.

ASTRONOMY

Let me talk about the astronomy review. This is a far-reaching and strategic investigation, not so much how many people are in each center and can we afford that many people in a center or anything like that. It comes about from a realization that in order to keep ourselves at the forefront in terms of instrumentation in astronomy, the price tag will be going up on us—significantly.

The days of the $20 million and $30 million instruments is gone. As you know, in the VLBA, we are talking about $100 million, and that is just a forerunner of the future. We really need to ask ourselves a different kind of a question; namely, can we afford such an investment as a country, or should we pool our needs with other countries?

Can we take advantage of other countries' plans as well as letting them take advantage of our own? Can one come up with a broader strategy than just looking at the National Science Foundation as an entity; namely, looking at the world as an entity? That is the question we are after in astronomy.

So it is not essentially a case of closing down one facility or another. That might occur as a consequence, I have no doubt about it. But, the review is also laying a strategic plan into place for the future, for the next 5 to 10 years. How do we behave in this very important area? What can we afford? What must we afford in this area? These are very big expenditures that we are facing.

UNDERGRADUATE EDUCATION

Senator DOMENICI. I also have a question about your undergraduate education program. I will submit it for the record. I am somewhat concerned about the arithmetic a few years out as to what might have to be cut if NSF implements a change in the award of graduate fellowships.

I also want to compliment you on your efforts to bring into the centers of excellence some nontraditional players like the national laboratories. I think it is absolutely essential that we not forget their tremendous expertise, and if you can match up universities, the private sector and a national lab or two, I think you are drawing on an enormous resource out there.

There are a couple of such applications that have finally been put together in response to NSF's science and technology centers initiative. I am hopeful that we will give you enough funding this year so that you can proceed to see if they will work.

My last statement for the record, I guess, is just to hear myself talk. I frequently ask people if they know what institution in government controls the most scientists, and I always get the wrong answer. People either say the National Institutes of Health or some might even say your agency, but the Department of Energy controls more scientists as one institution than any institution in the free world. They have 22,500 scientists at a minimum within their laboratory system, and nobody else comes close. I am concerned that we isolate them under rigid rules of nonparticipation with the private sector and raise all kinds of stumbling blocks to such partnerships.

I thank you for trying to merge them into some better synergism with academia and the private sector.

Mr. Bloch. It is not easy to do, but I think we have to try.

Senator Domenici. It is very difficult. Thank you.

Mr. Bloch. We thank you for your support.

OUTREACH AND EDUCATION

Senator Mikulski. Senator Domenici, those were excellent comments, and your suggestions for exploring the creation of an extension service is certainly supported by me, and, I think, others. We had talked earlier about the need for boldness and urgency in trying to find ways to meet our work force needs. One of the things I suggested to Mr. Bloch is that we look for co-op and work study efforts exactly because of what you have talked about, the enormous issue of debt and pursuing post-high school education, not only postgraduate education, and then getting something for the money. I thought that was an excellent idea.

Senator Domenici. Could I just make one other observation?

Senator Mikulski. Yes.

Senator Domenici. You have spoken about minorities. The demographics are startling on minorities. If the United States is going to be employee-short, worker-short, and we are, we are going to be in severe trouble if the minority population is not educated to take the jobs, and I am not speaking of menial jobs. The numbers are absolutely dramatic as to what the job market will require 10 or 15 years from now.

The percentage of minorities that will have to fill them is going to be exponential. If it is 8 or 9 percent now, it is going to be up around 35 to 38 percent of all the jobs by then. So I leave with this last comment: Whatever you can do to encourage and excite minorities in the field of science or engineering, it seems to me it has a peer potential beyond measurement, because we must convince our minorities that this is something good for them.

We can talk all we want, but the truth of the matter is that they will look to their own. If they are not succeeding in these fields, we can talk until our faces are blue; we have to get the talent into these fields, and then we will excite many of the young minorities to join them. I hope there is some special effort underway at NSF, and we surely ought to be pushing it.

Mr. Bloch. There is. As you know, in the Foundation we have special efforts, and we also have the focus on making sure that minorities and women, by the way, which are an underrepresented resource in the sciences and in engineering—make sure that they can enter into the mainstream and not just be treated by special programs, but enter into the mainstream through the help of these programs.

Senator DOMENICI. Thank you very much.

ANTARCTIC RESEARCH

Senator MIKULSKI. Thank you, Senator.

Just to wrap up, we have been talking about. One, the issue of Antarctica. It didn't come up today. I don't know if that came up yesterday, and we are not going to pursue it today. But know that because it doesn't come up in the hearing it is not because of a lack of interest.

Mr. BLOCH. Right.

Senator MIKULSKI. We want to encourage your continued work in that area of the world in the area of research that you are exploring. Because we know how important it is. I think we tend to be now obsessed with this issue of work force preparedness because it rests upon our intellectual infrastructure for the future.

In a less esoteric term, we come back to, again, getting our money's worth, and I want to give you a question about the need for the NSF to relocate. I understand that you need new space because of your own needs and that of Secret Service. There seems to be a question as to where the National Science Foundation would move. We understand that you need room and would support that, because you need the ability to operate.

We, of course, would hope that it would come to suburban Maryland. We are not territorially inquisitive. I have been told that there seems to be a reluctance on the part of NSF for such reasons as that there is not an adequate amount of hotel space in Montgomery County, which doesn't seem to be a need, but that even in Montgomery County, which is not a cheap place, as Dr. Colwell, knows, it is running $15 a foot cheaper than to be in downtown Washington, which could save money in the future for you and the Treasury.

Would you tell us where you are on this issue?

NSF HEADQUARTERS

Mr. BLOCH. Yes. Let me tell you where we are. First of all, you are absolutely right. We need new space. There are two reasons for it. The space that we are occupying today is not geared for the type of work that we need to do today; namely, highly automated kinds of work. We are also in the way of the Secret Service, which needs expansion space, and they have the first priority in that location because of its closeness to the White House.

Senator MIKULSKI. Why do you have to be close to the White House?

Mr. BLOCH. No; I said the Secret Service had to be close.

Senator MIKULSKI. Yes; OK.

Mr. BLOCH. They had the priority because of their need for closeness to the White House.

The second thing is that they have made some major installations in that building in terms of security and so forth, and therefore, moving out would cost a great deal. So there are all kinds of reasons. Essentially, we are in a rented building that is 20 years old.

Senator MIKULSKI. We know your situation is lousy. We want to know where are you going to go and how are you going to decide.

Mr. BLOCH. Let me tell where we want to go. We have a preference for staying in downtown Washington.

Senator MIKULSKI. Everybody does.

Mr. BLOCH. I think ours is a little bit stronger than just a desire to be there. We have a lot of traffic throughout the year; a large number of panels come in; a large number of individuals come in for peer review, for advisory committees, and so forth. They represent a great deal of traffic. In fact, we cannot function in the Foundation without that kind of a support from the community.

Therefore, a site that is close to an airport is extremely important.

Senator MIKULSKI. Wouldn't the National Institutes of Health have a parallel need because of their panels coming in, and wouldn't they need all of that?

Mr. BLOCH. I would say they have a similar kind of a need, but don't forget, they have also a different kind of a setup inasmuch as as their institutes and their laboratories are located right there. Many times, when they have a panel coming in or an individual coming in, the trip is tied in with a visit to one of their laboratories. We don't have that magnet because we don't run laboratories. The National Science Foundation has no laboratories; certainly none in Washington.

So that is certainly one thing. The second problem is that commuting is a very important aspect. Where do our people live? They live all over the place around this area; some of them in Maryland, some of them in Virginia, some of them to the east, west, south, and so forth.

So we want, in order not to hurt a large number of people by any relocation move, we want to stay very close to where we are so that relocation of families doesn't have to occur. But I assure you, we have an open mind on it. In fact, we are looking for——

Senator MIKULSKI. It doesn't sound very open, Mr. Bloch. [Laughter.]

If that is an open mind, I hope your researchers have a better open mind when they go after something.

RELOCATION CHOICES

Mr. BLOCH. I will prove it to you by saying that we are going out with a prospectus that considers all possibilities: downtown, suburban locations, Virginia, Maryland, and so forth. In the end, you are absolutely right. The choice has to do with what can be offered and what it costs. That, very clearly, would be one of the more determinative factors.

Senator MIKULSKI. We understand the problem with transportation in this area. As I said, we would like for there to be a regionwide competition on an even playing field.

Mr. BLOCH. That is exactly what we are after.

Senator MIKULSKI. I will just bring to your attention that Metro's Red Line to Montgomery County is only 17 minutes from downtown and one-half hour from National Airport. But that is what we would seek. Let me wrap up.

Mr. BLOCH. Let me state, just to show you how open-minded I am, that we looked at one location in Silver Spring.

Senator MIKULSKI. I am going to get a peer review on you, you know. [Laughter.]

Mr. BLOCH. Nobody would dare to say anything, as you know.

We looked at Silver Spring, at one of the five buildings out there. It fell apart; for a lot of reasons it fell apart. It is still not settled because of the Maryland requirement for the 5,000 people maximum kind of thing, as you are well aware of. I think that shows how opened-minded I am.

Senator MIKULSKI. We appreciate that.

Ordinarily, and this is my last question, Senator Proxmire raises some of those questions, as you know, related to the Golden Fleece Award.

Mr. BLOCH. He did yesterday.

Senator MIKULSKI. Yes, he did, and he sees me as a real successor to him. [Laughter.]

We have a whole list of examples here like a $64,000 study for Australian magpie song research and its effect on social interactions, and there are others which I won't cite.

But my question is: In these areas, what kinds of discipline can be applied to reduce questionable projects? Though some of them might be of good intention, they might even be desirable, but should not be taxpayer financed. We are now into things that are necessary, things that are essential. We are a country that is running out of time, and we are a country that is running out of money, which is what we are all trying to convey here.

Could you speak to that?

SOCIAL AND BEHAVIORAL SCIENCE

Mr. BLOCH. Yes. Look, the number of grants which have been identified, I am not going to defend, myself. But let me assure you of one thing: they are coming out of the social and behavioral sciences. That is a very difficult area, because if you want to investigate human learning, as an example, you can't experiment on humans. You have to find an analogy somewhere else.

This problem leads to some of the proposals that you see that we fund. Some of the proposals don't make sense in isolation. They make sense only when you look at the totality of what goes on in that particular field. This might be the key to some of these problems.

So it is very difficult to wrestle with these particular proposals. They all have been peer reviewed, by the way, by those communities, so it is not only the say of the investigator who wants to do something; it is also critically reviewed by peers. And just as in the case of any other discipline, if the peers are saying the idea makes sense, together with the program officer in the Foundation, then there might very well be something to it. I must say that some of the proposals the Senator has identified and has discussed yesterday are doubtful ones. I will say that. They sound trite; some of them sound trite. Some of them even sound as not appropriate for scientific inquiry.

I think we have some understanding of the problem. We have focused on these areas. It is not the first time that it has come up. It is something which we will focus considerably on in the future. I hope that we can be in a better position than we are today to explain what these things are all about, and why they have been funded. We are going through a critical evaluation of a number of things in particular programs.

It is also true that it is the area of behavioral and social sciences which contains important subjects, and just for the reasons that you mentioned before, social responsibility. In fact, many of the questions that are being asked in behavioral and social sciences affect the whole society, or the answers could affect the whole society.

But I think we have to be a lot more critical of these fields and not just accept everything that smacks of science.

Senator MIKULSKI. Thank you, Mr. Bloch. That really concludes the hearing, and we want to thank you for your testimony and for the people who also joined with you in presenting examples. This was extremely helpful to the subcommittee, and I, again, would like to reiterate just a suggestion as you think about education. Education goes on not only in the schools, but often in these nonprofit organizations, and I think scouting might offer an interesting area to get people involved.

Did you want to say something, Doctor?

Dr. SHAKHASHIRI. Yes. I did want to mention that we have active grants involving Girl Scouts, 4-H groups, and all those.

Senator MIKULSKI. That is exactly what I was speaking to, because that is where it is out in the community; those kids are doing field trips. Very often, their schools are equipment-starved, as Dr. Colwell has said, but there is nothing like being outside with other kids.

Thank you very much.

SUBCOMMITTEE RECESS

The subcommittee will stand in recess until 10 a.m. on Tuesday, March 29, when we will take testimony from the National Aeronautics and Space Administration. The hearing will take place in SD–124 in the Dirksen Office Building.

[Whereupon, at 11:34 a.m. Tuesday, March 22, the subcommittee was recessed to reconvene at 10 a.m. Tuesday, March 29.]

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT AND CERTAIN INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1989

MONDAY, APRIL 25, 1988

U.S. Senate,
Subcommittee of the Committee on Appropriations,
Washington, DC.

The subcommittee met at 10:12 a.m. in room SD–124, Dirksen Senate Office Building, Hon. William Proxmire (chairman) presiding.

Present: Senators Proxmire, D'Amato, Grassley, and Nickles.

FEDERAL HOME LOAN BANK BOARD

STATEMENT OF M. DANNY WALL, CHAIRMAN

ACCOMPANIED BY:
- LAWRENCE J. WHITE, BOARD MEMBER
- ROGER MARTIN, BOARD MEMBER
- JAMES BOLAND, EXECUTIVE STAFF DIRECTOR
- JORDAN LUKE, GENERAL COUNSEL
- DAVID BRUMFIELD, BUDGET OFFICER
- JAMES BARTH, DIRECTOR, POLICY AND ECONOMIC RESEARCH
- S.G. FRANK HAAS III, EXECUTIVE DIRECTOR FOR POLICY
- STUART D. ROOT, EXECUTIVE DIRECTOR, FSLIC

OPENING REMARKS

Senator Proxmire. The subcommittee will come to order. Our first witness this morning is an old friend and a man who did a marvelous job in the Senate Banking Committee for years, and I worked closely with him in the past. I have admiration and respect for him, Mr. Danny Wall, the Chairman of the Federal Home Loan Bank Board. Mr. Wall will discuss the limitations on expenditures of $33,609,000 for both the Board and the Federal Savings and Loan Insurance Corporation, an increase of $1,686,000 above the current limitation.

Chairman Wall is accompanied by Board members White and Martin. Although the Congress addressed the savings and loan liquidity crisis through legislative action last year, it seems that the situation has deteriorated, especially in the Southwestern part of the country.

We will be discussing the liquidity issue as well as the performance of the Federal Asset Disposition Association in dealing with troubled and failed savings and loan association portfolios.

Chairman Wall, this is your first appearance before the subcommittee. As I say, it is a pleasure to greet you as an old friend. You have taken over probably the toughest job that I know anything about in the federal government, and I think you have done fine, fine work under the most difficult circumstances. The country is lucky to have you in the position you are in.

We will hear from three other witnesses this morning, so I am going to ask you to keep your presentation brief with the understanding that your prepared statement will appear in the record in its entirety. We will then proceed to questions. Go right ahead.

BUDGET REQUEST

Mr. WALL. Thank you, Mr. Chairman and Senator Nickles. It is a pleasure to be with you this morning to present our testimony with regard to the fiscal year 1989 request for appropriations for the Federal Home Loan Bank Board and the Federal Savings and Loan Insurance Corporation. As you indicated, the fiscal year 1989 request is $33,609,000, $31,942,000 for the Federal Home Loan Bank Board's administrative expenses; $1,667,000 for the FSLIC's administrative expenses.

STATE OF THRIFT INDUSTRY

A few brief comments about the state of the thrift industry. In 1987, at the end of the calendar year, there were over $900 billion in deposits in over 100 million accounts in 3,200 savings and loans.

In 1987, mortgages were originated in the amount of $254 billion, which represented about 40 percent of all of the single family, one through four, family mortgages originated in this country. At the end of 1987, the 3,200 institutions held within their portfolios $690 billion in home mortgage loans, which also represented approximately 40 percent of all the home mortgage debts.

The origination of 40 percent of the home mortgages in this country occurred last year within the S&L's despite what I have identified as a market share war that is going on. Mortgage banking has come to be a very popular business, a very popular undertaking, whether you are a manufacturer of automobiles or whether you are in any of a number of other lines of business.

General Motors, for example, through purchases alone has gone from not being in the home mortgage business to being the largest mortgage banker in the country. In the face of that competition, the thrift institutions continued to originate 40 percent of all of the mortgage originations in the country.

We have to keep the industry's earnings outlook in the proper perspective. There is a bifurcated industry out there. Ninety percent of the industry is solvent and well managed. In 1987, their profit was $2.7 billion with the regulatory capital-to-assets ratio a positive 5.71 percent, up approximately one-quarter of 1 percent from the previous year.

Ten percent of the industry is insolvent. It lost $9.5 billion last year, with a regulatory capital-to-assets ratio of negative 15¾. The geographic concentration is, as you indicated, Senator, in the Southwest, focused most heavily in the state of Texas. The stock market collapse had a positive effect last October. As I have told the story many times, the reporters were calling us on the 19th and 20th of October asking, "What is the situation in the thrift industry?"

EQUITIES MARKET

Much to their surprise, they discovered that we were making the observation that while it may seem strange, the thrift industry is not permitted to invest in the equities market, and hence, the stock crash on the October 19 date and thereafter had a positive effect, because it brought the interest rates down.

Our industry is very much interest rate sensitive, and contrary to, as I said, what reporters might have thought they were going to encounter, they discovered that, perverse as it may seem, that we were better off as an industry in the post-October 19 crash.

All total, of the over $900 billion in deposits that I indicated and the total assets of the industry of approximately $1.25 trillion, only $1 billion was invested in equity stocks so as to be so insignificant to the whole portfolio of the industry as not really to have had any effect on the industry as such.

NEW DEPOSITS

Net new deposits for the last 5 months, which, coincidentally, began with the month of October, have averaged $4.5 billion a month. That is net new deposits. That is not interest credited and dividends credited to the accounts. That follows in the face of a negative $1.5 billion average per month for the previous 9 months. So there was a significant turnaround as depositors regained confidence in insured depository institutions in the face of declining confidence in the stock market.

In 1988, we see a good trend as far as the industry and as far as residential finance is concerned with an upward trend continuing in ARMs originations; mortgage originations will likely be slightly lower, perhaps, because of refinancing. Losses should diminish with the additional FSLIC resolutions as we move forward and the action to reduce the cost of funds, if we are as successful as we think we will be, will see an increase in the industry's profitability.

RECAPITALIZATION LEGISLATION

The FSLIC fund and recapitalization; of course as you indicated, the Congress approved and the President signed on August 10 last year recapitalization legislation, which authorizes the FSLIC, through the Financing Corporation, to access the capital markets to a total over time of $10.825 billion.

PARTICIPATION OF MINORITY FIRMS

Since August 1987, we have gone to the market four times in public sales and one private placement, raising a total of $2.15 billion. We have had a good participation of minority firms at all levels, the law firms' participations as well as minority firms as underwriters of the bond issue.

In that, let me make a side comment, as well, that the experience of the minority firms in this kind of activity is a new experience. Under Conrail's disposition as directed by Congress, they were involved for a part of the activity, but that, of course, was a stock underwriting. In this case it is a bond underwriting; it is the first such bond underwriting for any of them to have been involved in.

The flow of the capital from the FICO bond sales has enabled FSLIC to speed up and pick up the resolution of the cases. As of the end of 1987, we have a case load of 204 institutions with $53.8 billion in deposits.

In 1987, we resolved 47 institutions at a cost of $3.7 billion, 31 of them by assisted sales, saving FSLIC $400 million over estimated liquidation costs, and 16 insurance actions where we transferred the insured accounts to successor institutions.

In late 1987, we also stepped up the marketing, having put out into the market 50 institutions with liabilities exceeding $17 billion where we would expect all or most of these to have been completed in terms of the negotiating from the bids to ultimate resolution and closings, all in this calendar year.

The 50 institutions have, as I said, liabilities exceeding $17 billion, and we would expect the cost to FSLIC of something on the order of $2.5 billion from that part of our work for this calendar year.

Our 1988 goal is one assisted sale per week, not including the so-called Southwest plan institutions, and we will get to more of that later. In the first quarter 1988, we resolved 17 cases at a cost of $793 million—9 by assisted sales; 8 by settling insured accounts. We have marketed, in this first quarter of this year, 29 more troubled institutions, and we are projecting that we will be marketing 35 in the second quarter, and an expectation that we will resolve 19 institutions in the second quarter of 1988.

ANALYSIS OF CONCENTRATED PROBLEMS UNDERWAY

In early November, we announced that we were undertaking an analysis of the concentrated problems within the industry, which is to say the Southwest part of the country, the so-called Oil Patch. As of the first week in February, we announced that our analysis of applying a consolidation strategy to those states and the institutions in those states would have the expected and hoped for beneficial results of protecting and preserving competition within the thrift industry and, at the same time, providing us with net savings as we would move forward in an insurance-assisted operational activity.

It is our goal to resolve the 146 RAP insolvent institutions in the five states of the Dallas Federal Home Loan Bank District, with initial emphasis on the 104 institutions in Texas. As of the March 31 deadline, we received 150 bid proposals for combinations or individual, single institutions of that 104 group of insolvents in the State.

I suspect there will be more questions on the Southwest Plan, and we will perhaps return to that in the form of questions. We, of course, need extension of the tax provisions which are set to expire at the end of this year. They will significantly affect FSLIC's ability to arrange acquisitions of troubled institutions it those tax provisions are not extended. We would solicit this committee and the members' of this subcommittee's assistance in pursuing that issue before the Senate Finance Committee.

ASSET MANAGEMENT AND FADA

FSLIC continues to acquire substantial inventory of real estate and nonperforming loans, though as we move forward, we would expect to take fewer and fewer or less and less of those kinds of assets into our workload, having made the decision that it is, we think, more appropriate to leave those asset responsibilities with the successor institution, and again, in that case, perhaps, we will come back to it.

BANK BOARD ACTIVITIES

As of February 29, 1988, FSLIC managed 71 liquidating receiverships with $7.3 billion in assets and held $174 million in the FSLIC corporate portfolio. The bank Board chartered the Federal Asset Disposition Association on November 5, 1985, to assist in the disposition of assets.

Under the new Bank Board, we have reoriented and redirected FADA's activities with, I think, two significant points to be made. As I have already alluded, we see less and less or fewer and fewer, however you care to think of it, of the assets of troubled institutions brought into FSLIC's workload, which is to say, as a possibility, into FADA or other private contractors' workloads. Second, we see it as inappropriate, unlike our predecessors, to give all of those assets management responsibilities to FADA. With those two changes in terms of FADA and FADA's likely workload, we see that FADA has a piace and has a purpose, and, indeed, can perform and can meet that purpose.

The results today, as, far as FADA is concerned, is $405 million in property sales and loan payoffs, a 125-percent increase since September of last year; and $265 million in restructured loans. They manage in excess of 2,700 assets for 35 troubled S&L's. FADA, as you know, has a new CEO and new management. FADA has cut $1 million on an annualized basis from their salary expenses, most by virtue of attrition.

FSLIC has a new contract with FADA and other private managers of assets. The FADA financial condition is better for the first quarter of 1988 with a net income of $2.7 million on an unaudited cash basis.

Reorganization of FADA, we believe, will improve the accountability of the FSLIC and of the Board. The Inspector General confirms no criminal misconduct from the Juliano allegations and that information is available for your staff should they wish to have some bedtime reading.

REGULATORY ACCOMPLISHMENTS

As far as regulatory accomplishments, the agency was given an unprecedented assignment in the Steagall legislation. As you well know, Mr. Chairman, we had eight specific assignments for regulation. One of them we put into place immediately upon the action by the Board in October of last year. That was putting into place an applications tracking process. Seven other major regulatory assignments were given to the Board with a time frame of 150 days in which to complete that work. We completed that work in less time to the tune of 3 weeks early, having promulgated, prior to Christmas, when the date for promulgation would have been January 10.

TRAINING PROGRAM

Within 10 weeks, the Office of Regulatory Policy, Oversight and Supervision completed the preparation of a training program. Within 2 months following that, they completed the training of 2,300 of the Federal Home Loan banks' examination and supervision people, FSLIC staff, and Bank Board staff. So that the regulatory assignment that was given has been carried out in a very expeditious, and, I think, in a very responsible and responsive way.

We have additionally, as a result of having produced a 4-inch notebook with the regulations and all of the permutations and combinations of instructions, as well as a 6-hour videotape. We have provided copies of both to all of the institutions in the industry as a way of identifying for them what it is and how it is they are going to be regulated, and that they are going to be examined by the examiners under these new regulations.

RECOVERIES TOTAL $2 BILLION

Briefly, in other areas, in litigation and enforcement actions, the Office of General Counsel has brought and outside counsel have brought actions on behalf of 72 failed institutions against officers and directors thereof, recovering, to date, $180 million. As of the period of January 1, 1986, to September 30, 1987, the OGC and outside or, as we call them, fee counsel, have recovered title II or property that totals $2 billion in cash and other property on behalf of these receiverships.

That is, in some sense, it is clearing title; in some sense it is gaining title and other compensation required under the various laws of the various States in which those 72 failed institutions are located.

In 1987, 25 cease and desist orders were brought and 43 removal and prohibition orders were drought against management in institutions in the industry. Freddie Mac continues to develop quality mortgage programs to meet the housing needs. In 1987, Freddie Mac purchased $77 billion worth of mortgage loans, representing 1.1 million mortgages, using PC's and CMO's, and mortgage pass-throughs backed by ARM's and REMIC's. Freddie Mac continues to be aggressive and continues to provide that service for the industry and, thus, for the borrowing public.

Federal Home Loan Banks have within them $154.1 billion of assets and a capital-to-asset ratio of 8.9 percent. That would represent the second largest financial institution in the country and perhaps the best capitalized institution in the country. So think of those 12 Federal Home Loan Banks as the wholesaler to the thrift industry, and it continues to be strong and continues to be profitable as evidenced by the fact that last year, 1987, those 12 banks paid dividends in stock and/or cash of over $1 billion.

We have taken significant steps in staffing, in part with support of the appropriations process of Congress as well as the Office of Personnel Management. We are still lacking flexibility in compensation parity with other Federal banking agencies and with the private sector, but we continue to try to do the best we can with the abilities and the authorities that we have. Significant staff increases, 31.5 percent increase in fiscal year 1988 as compared to fiscal year 1987, and the number will increase.

Examiner and supervisory staff has doubled since 1985, which is when, of course, the previous Board delegated that responsibility to the 12 District banks. We are refurbishing the existing building, a number of long-needed changes, not the least of which is the floor system in that building. It was built, as you may recall, sort of at the leading edge of the technology and of technological needs in terms of the so-called hollow floor. The system was early in the stage of the development of the technologies and the processes for providing such a floor system, and a new system is being installed, which makes the facility much more businesslike.

Also, the previous Board leased a building just up the street, so that we have the ability to concentrate ourselves in just three buildings instead of what was fast becoming five or perhaps even more. We have made progress in equal opportunity employment with 69 new professionals, of which 50 percent are women and 20 percent are other minorities.

Mr. Chairman, we would look forward to an opportunity to respond to your questions.

[The statement follows:]

STATEMENT OF M. DANNY WALL

Mr. Chairman and members of the Subcommittee, I appreciate the opportunity to appear before you today to present the fiscal year ("FY") 1989 budget request of the Federal Home Loan Bank Board. Our total 1989 request is $33,609,000 of which $31,942,000 is requested for Bank Board administrative expenses and $1,667,000 is requested for the administrative expenses of the Federal Savings and Loan Insurance Corporation ("FSLIC").

I would like now to review the major initiatives and focus on the agency's activities this past year, a period which includes the initial months of my tenure as Chairman of the Bank Board. First, I will review the general state of the thrift industry, then I will move to a discussion of some ongoing Bank Board initiatives.

I. The State of the Thrift Industry

There are approximately 3,200 FSLIC-insured thrift institutions in the United States. At the end of last year, they held more than $900 billion of deposits in over 100 million accounts and were able to provide a steady and reliable source of mortgage financing (See attached Chart 1). In 1987, thrifts closed about $254 billion of mortgages, slightly less than the record 1986 volume of $265 billion because of a decline in the refinancing of higher-cost loans made earlier. Mortgage loans on one-to-four family properties, the traditional mainstay of the thrift industry, also showed a slight decrease from 1986 for same reason However, construction lending on one-to-four family residential units increased slightly last year, but loans for the construction and financing of multi-family and nonresidential properties were down. By the end of 1987, thrifts held some $690 billion in home mortgage loans, either directly or in the form of securities backed by such mortgages. (See attached Chart 2). This represents about forty percent of the home mortgage debt in the country. Moreover, during 1987, insured thrift institutions originated two-fifths of home mortgages in the country, a substantially larger share than any other type of financial intermediary such as commercial banks or mortgage banking firms.

In short, the thrift industry is continuing to fulfill its mission as the nation's principal provider of home financing. (See attached Charts 3 and 4). In addition to this credit intermediary function, its role as a safe and sound depository remains solidly intact. Indeed, evidence of the safety that investors attach to thrift deposits was reflected in a surge in net new deposits following the stock market collapse on October 19, 1987. During the succeeding five months, from October to February, net new deposits (i.e., deposited funds in excess of funds withdrawn) received by FSLIC-insured institutions averaged $4.5 billion a month. This was a sharp reversal from the preceding nine months, when net new deposit receipts averaged a negative $1.5 billion per month. However, these weak deposit flows were attributable primarily to two factors: the nation's very low savings rate and the substantial share of savings captured by mutual funds.

The surge in deposits was not the only beneficial effect the stock-market collapse had on the thrift industry. Thrifts' portfolios were largely unaffected by the collapse because less than one-tenth of one percent of their assets are held in common stocks. Second, it stimulated an across-the-board decline in mortgage and deposit rates that softened the adverse effect of declining equity values on the demand for housing. This drop in rates also reduced the cost of funds for thrifts. Both of these developments likely will improve the earnings outlook for 1988 by offsetting the negative influence on earnings exerted by the general rise in interest rates during the months preceding the collapse. These developments should also enable some thrifts to realize capital gains on the sale of their mortgages and mortgage-backed securities.

To place the earnings outlook for the thrift industry in proper perspective, it is of course essential to recognize the bifurcated character of the industry. This bifurcation occurred as the majority of thrifts recovered from the effects of the high-interest-rate environment of the early 1980s, and the industry as a whole evolved into two separate components. One segment, comprising about 90 percent of the industry, consists of solvent and generally well-managed institutions. In most instances, these thrifts have restructured their portfolios to achieve a closer maturity match between assets and liabilities, thereby greatly reducing their interest-rate risk. At the same time, increased capitalization has facilitated steady growth. At the close of 1987, the aggregate regulatory capital to assets ratio of these thrifts had risen to 5.71 percent, up from 5.49 percent the previous year and they made a profit of $2.7 billion.

By contrast, the segment comprising the remaining 10 percent of the industry is insolvent and lost $9.5 billion in 1987.1/ These thrifts were mainly located in oil-producing states. (See attached Chart 5). Thrifts in the Dallas and Topeka districts were adversely affected by the general softening in world crude oil prices, curtailed oil and gas production, and, in turn, the depressed level of business activity of this substantially oil and gas-dependent region. The economic decline was exacerbated by some cases of bad loan underwriting, and by the reduced resources of the FSLIC fund, which hindered its ability to resolve problem cases.

As indicated by the industry loss figures, aggregate industry performance data are seriously distorted by the presence of insolvent thrifts that await resolution by the FSLIC. For example, the 1987 year-end aggregate regulatory capital to assets ratio for the insolvent segment was a negative 15.75 percent, while for the solvent portion of the industry it was a much healthier 5.71 percent. For 1987, the industry as a whole had an annualized 0.56 percent loss on average assets, but the solvent segment had a 0.25 percent gain. Moreover, while the industry had a positive net interest margin -- the spread between the interest earnings on assets and the cost of funds --of 1.59 percent for the year, this profitability measure was a much healthier 1.86 percent for the solvent group.

A notable characteristic of these earnings difficulties is their geographic concentration. As a group, solvent institutions in all but two Federal Home Loan Bank districts were profitable during the last year. The unprofitable districts are Dallas and Topeka. Thrifts in these districts (Texas and the Southwest) suffered severe earnings difficulties because they must labor under the dual burden of the collapse in the regional economy and the high cost of funds resulting from the presence of so many insolvent institutions in the market. This situation is reflected in the average cost of funds in the Dallas district which in the the fourth quarter of 1987 exceeded the national average by 42 basis points.

As discussed more fully below, the Bank Board has devoted considerable effort to developing the "Southwest Plan" which we expect will go a long way toward alleviating this problem.

The earnings outlook for the thrift industry in 1988 will depend of course to a substantial degree on general economic conditions, including interest rates. One very encouraging development is the strong upward trend in the market share of adjustable-rate mortgages ("ARMs") that is working to buffer any adverse effects on mortgage lenders of increased interest rates. By December 1987, the share of ARMs issued by thrifts had increased for the eighth consecutive month to a record 78 percent, nearly double the percentage of a year earlier.

Mortgage originations likely will have a modestly lower dollar value in 1988 because total originations during the last two years have been inflated by a high volume of refinancings ($72 billion in 1987 alone). Nonetheless, FSLIC-insured institutions in 1988 likely will originate over $200 billion of loans, over three-fourths of which are on one-to-four family properties. Thus, thrifts will continue to play their traditional role of financing the major share of new home purchases in the United States.

The 1988 outlook for insolvent firms is for some limited improvement. Losses are likely to diminish as the FSLIC resolves existing problem cases, and as the backlog of previously unrecognized underwriting problems is reduced. Also, to the extent that actions taken to reduce the cost of funds are successful, overall industry profitability will improve. Even a 10-basis-point reduction in the cost of funds would increase industry pre-tax earnings by almost $1 billion.

II. The FSLIC Fund, Recapitalization, and FSLIC Case Resolutions

A. The FSLIC Fund and Recapitalization

From the FSLIC's perspective, clearly the most significant development during the past year was the enactment of the Competitive Equality Banking Act of 1987 ("CEBA")[2] that provided for a $10.825 billion recapitalization of the FSLIC insurance fund. We appreciate the efforts of all who contributed to the passage of this vital legislation. Because this occurred subsequent to the Bank Board's last report to this Subcommittee, I would like to describe our efforts since passage of the recapitalization legislation.

CEBA authorized the Federal Home Loan Bank Board to charter a mixed-ownership government corporation called the Financing Corporation ("FICO") whose sole purpose is to function as a financing vehicle to recapitalize the FSLIC. I am pleased to report that the Financing Corporation has been quite successful in achieving this purpose. Since August 1987, FICO bond sales have raised $2.15 billion.[3]

On August 28, 1987, just 18 days after the enactment of CEBA, the Bank Board moved quickly to approve regulations and resolutions necessary to implement the FICO financing plan. These actions included chartering the Financing Corporation, authorizing the issuance of debt by FICO, and authorizing FICO to collect assessments from the thrift industry to repay the interest on FICO debt and cover related issuance expenses.[4] The Board also approved the Federal Home Loan Banks' investments in FICO stock of up to $1 billion, and pursuant to CEBA's directive, designated the Federal Home Loan Banks to pay FICO's administrative expenses. That same day, the FICO Directorate, a three-member Board, was appointed and held its initial organizational meeting to approve bylaws, appoint officers of the Corporation, and generally set in motion the operations of the Financing Corporation.

The first FICO debt offering was priced on September 30, 1987, just six weeks after CEBA was signed into law. To insure the success of the initial offering, FICO officials, in cooperation with the District Banks, planned and coordinated an intensive educational effort to familiarize dealers and investors with FICO and FICO debt. Senior FICO and Bank System officials conducted the first presentation in New York City to the dealer community. Several subsequent presentations were made in major cities throughout the country. The critical information we sought to communicate at these meetings was: a description of the FSLIC recapitalization plan, an explanation of the structure and role of FICO, a preview of the expected structure of FICO debt offerings, and an analysis of the plans for repayment of principal and interest on the debt.

Since its incorporation in August, 1987, FICO has conducted four public sales and one private placement which have resulted as of April 6, 1988 in total debt outstanding of $2.150 billion. (See attached Table A). The coupons on these issues have ranged from a high of 10.70% for the first issue, to a low of 9.40% for the February 8, 1988 issue. The most recent issue had a coupon of 9.80%. Spreads between yields of FICO bonds and comparable 30-year Treasury bonds started in the September and November sales at 90 basis points, and dropped to 88 basis points in the February offering. Despite the smaller issue size of the most recent sale ($300 million), the spread widened to 104 basis points. This recent increase is in part attributable to the negative publicity about the thrift and commercial banking industries and to the fact that March 31 was the fiscal year end for Japanese corporations which had to accomododate tax and accounting changes. The Treasury Department estimates that Japanese corporations were net sellers of over $10 billion of U.S. government and U.S. agency securities in the month of March.

FICO initially anticipated public issues of between $500 to $700 million approximately every other month. Total annual sales would not, of course, exceed the $3.75 billion limit provided in CEBA.[5/] The favorable market reception for the initial $500 million public issue allowed us to expand the targeted size of the next two public offerings to $600 million and $650 million, respectively. Market conditions recently, however, indicated that the latest issue be reduced to $300 million. We will continue to pursue new opportunities for private placement of FICO bonds. We hope that regular market presence and an increasing market awareness of thrift industry changes and FICO issues will narrow the current pricing spread of 112 to 117 basis points.

The makeup of the purchaser group reflects the 30-year maturity characteristic of the FICO bonds. Thus, institutional investors such as bank trust departments, pension and retirement funds, mutual funds, insurance companies, and foreign customers have accounted for approximately 75% of the placement of the FICO bonds. Other important customers for the bonds have been bank portfolios, corporations, state and municipal accounts, educational institutions, and savings and loan institutions. A large percentage of the first two public offerings were purchased for foreign accounts, although foreign participation fell on the latest sale. However, we anticipate Japanese accounts will become more important in the future as FICO becomes more recognizable and as the yen/dollar relationship stabilizes.

The effort to inform both dealers and investors about FICO is continuing in this country and abroad. We have made a strong effort to reach the large pool of investors in the Far East. Board Member Roger Martin, FICO Vice Chairman Richard Syron, FICO President Austin Dowling and I personally visited Hong Kong, Taiwan, Korea, and Japan in November, where we conducted meetings to familiarize money managers and government officials in those countries with FICO. Because the Japanese in particular have been large purchasers of long-term bonds in the United States market, our goal is to capture more of this interest for our FICO bond sales.

In order to cover issuance costs and accrued interest, the Financing Corporation as of March 31, 1988, has collected from FSLIC-insured institutions assessments totaling $ 83.62 million.6/ The money received from the Federal Home Loan Banks' purchase of FICO stock ($227 million as of March 31, 1988) has been used to buy zero coupon bonds. These bonds are held in a segregated account and will be used to repay the principal on the FICO bonds at maturity. As of March 31, 1988, the par amount of the zero coupon bonds held in the segregated account was $2.660 billion. The establishment of this separate account for repayment of principal has bolstered investors' confidence in FICO bonds.

Increased investor familiarity with the bonds and the development of a more liquid secondary trading market should attract additional investors. Secondary market liquidity will naturally increase as more FICO bonds are issued and are available for trading. Significantly, the Federal Reserve Board has recently begun accepting FICO bonds for open market operations and accepting them as collateral at the Federal Reserve's discount window. These signs of the increasing familiarity with FICO bonds bode well for the establishment of a secondary market of significant depth.

The Board is especially pleased with the participation of minority firms in the FICO bond offerings. The Board made a concerted effort to attract minority firms by holding a special informational meeting and by distributing applications to become members of the FICO bond selling group. As a result, five minority firms and one woman-owned firm are members of the FICO bond selling group. In addition, four other minority firms are eligible to receive bonds through a reallowance process. Together, these firms received bonds totaling seven percent of the four public issues sold to date. In addition, minority legal counsel performed a "blue sky," investor-by-investor survey and prepared the legal investment memorandum for FICO debt securities. Another minority bond counsel assisted the primary legal counsel in the review of updated disclosure material.

As a result of the reception that the FICO bonds have received from the investment community to date, we should be able to rely on a steady stream of capital flowing into the FSLIC over the next several years. Together with the other resources available to us, these funds have enabled FSLIC to begin resolving those cases on which it had previously been unable to act.

B. FSLIC Case Activities

FSLIC ended 1987 with a total caseload of 204 institutions; these FSLIC cases held aggregate total assets of approximately $53.8 billion. During the year, FSLIC was successful in resolving 47 troubled institutions at an estimated cost of $3.7 billion. Thirty-one of those cases were resolved by assisted sales to other financial institutions or to corporate and private investors, saving FSLIC approximately $400 million over the cost of liquidating the institutions. From the enactment of CEBA until the end of 1987, the Board completed sixteen assisted acquisitions, for an average of approximately one transaction per week. The Board has instructed FSLIC that its minimum goal for 1988 is to continue the same rate of assisted acquisitions.

To understand the significance of the number of institutions in FSLIC's caseload, it is helpful to understand the process by which an institution comes into that caseload. Troubled institutions are identified as a result of periodic examinations conducted by the Bank Board's field examination staff, who are under the supervision of the Federal Home Loan Banks. When a troubled institution has been identified, the District Bank appoints a Supervisory Agent to monitor the institution in an attempt to resolve its problems without recourse to FSLIC. However, if the Supervisory Agent determines that an unassisted acquisition is not likely, he or she may request that the institution be transferred into the FSLIC caseload.

In determining what resolution to pursue for a particular institution, FSLIC undertakes a careful analysis. A financial analyst and a marketing officer are assigned to each institution in the FSLIC caseload. Working with the supervisory staff of the Federal Home Loan Bank in the institution's district, they develop a plan to address each problem institution's difficulties. FSLIC's experience has shown that the majority of FSLIC problem institutions can be sold if FSLIC provides some form of indemnification and financial assistance to potential acquirors. Many other institutions are made marketable through some form of restructuring. Only when a suitable acquiror cannot be found, does FSLIC consider a liquidation.

Given the size of its caseload and the available resources, FSLIC must prioritize cases according to the cost-effectiveness of resolution. In most cases, the preferred resolution is to sell a troubled institution because that is normally the least costly alternative for FSLIC. In addition, an assisted acquisition offers the potential of preserving the viable aspects of the troubled institution (such as its branch structure, its core deposit base and its employees), while providing new capital to the industry in a manner that avoids the cost to FSLIC of operating a receivership.

FSLIC may also place an institution in its caseload in the Management Consignment Program wherein Supervisory Agents of the relevant District Banks provide the day-to-day supervision of participating institutions in order to provide the necessary time to properly evaluate a final resolution. Since its inception in April, 1985, a total of 79 associations have been placed into the program. As of March 31, 1988, 27 associations left the program through FSLIC-assisted mergers, acquisitions or liquidations leaving 52 associations with total net assets of approximately $20 billion.

Two major initiatives have been undertaken with respect to the MCP program. An executive level committee chaired by the Executive Director of ORPOS, joined by the Executive Director of the FSLIC, the Executive Director of the FHLB Board, the FHLB Presidents, and others, has been created to set overall national policy and direction for the program. To date, the mission of the program has been refined and individual strategies for each institution in the MCP program are under review and revision. In November 1987, a small Division was created within the Washington office of the FSLIC which reports directly to the FSLIC Principal Deputy Executive Director of Operations. The division will be responsible for evaluating the Program's procedures and policies so that the institutions' problems can be dealt with quickly and effectively in accordance with the overall Board strategy for resolution of FSLIC cases.

During late 1986 and early 1987, FSLIC's marketing efforts were severely curtailed because of the depleted condition of the fund. Thus, it was necessary for FSLIC to develop a model to measure its cost savings under various assistance alternatives. By using this model together with data on the various economically depressed areas of the country, FSLIC embarked on a stepped-up marketing program late in the second quarter of 1987. In 1987, FSLIC marketed over 50 institutions with total liabilities exceeding $17 billion. As a result of these efforts in the second half of 1987, FSLIC had proposals pending on December 31, 1987 for the acquisition of 50 institutions located in 15 different states. FSLIC expects to act on most of these cases during 1988. The cost to resolve these institutions, on a present value basis, is estimated to be $2.5 billion. The Board's goal is to effectuate many more sales than liquidations in 1988.

To further facilitate FSLIC's minimum goal of resolving one case each week (in addition to the Southwest Plan), it has scheduled an additional 66 institutions for marketing during the first six months of 1988. The District Banks will assist in this effort by processing the smaller institutions. In addition, it is likely that some of the 204 institutions in the FSLIC caseload will be resolved without financial assistance from FSLIC. In 1987, for example three institutions with total assets of over $2.9 billion were removed from FSLIC's caseload so that unassisted resolutions could be pursued by the appropriate District Bank.

During the first quarter of 1988, FSLIC was successful in resolving 17 troubled institutions (with consolidated assets approximating $2 billion and liabilities of $2.5 billion) for an estimated cost of $793 million. Nine of these cases with total assets of $1.3 billion and liabilities of $1.5 billion, were resolved by assisted sales to other financial institutions or to corporate and private investors. These transactions saved the FSLIC approximately $82 million over the cost of liquidating the institutions.

The remaining eight cases were resolved by settling the insured accounts. In each case, the insured deposits and branch offices were transferred to another FSLIC insured institution and insured depositors continued to be served by their existing branch offices. Acquirors paid the FSLIC discounts totaling approximately $24.07 million for the transfer of the insured accounts.

One recent insurance settlement illustrates an optional resolution for both depositors and the institution. On January 29, the insured deposits of one troubled institution, Citizens' Savings and Loan Association of Salem, Oregon were transferred to another troubled Oregon institution, Freedom Federal Savings and Loan Association of Corvalis. This transaction not only halted the losses at Citizens while protecting insured depositors, but also made Freedom more attractive to a potential acquirer by enlarging its deposit base and by increasing its access to major state markets through Citizens' eleven branches.

In addition to the cases resolved with FSLIC assistance during the first quarter, FSLIC also transferred three cases with total assets of approximately $2 billion back to the District Banks for the Banks to pursue unassisted acquisitions. Finally, during the first quarter, FSLIC marketed 29 troubled institutions with total assets of $8.8 billion and total liabilities of $9.5 billion.

For the second quarter of 1988, FSLIC has tentatively scheduled for marketing 35 institutions with assets of $6.6 billion and liabilities of $7.3 billion and is projecting an additional 19 case resolutions.

C. The "Southwest Plan"

As mentioned earlier, the problems of the thrift industry are manifested most severely in thrifts located in the Southwest. To respond to these problems, the Board on February 3, 1988, adopted the "Southwest Plan" which we believe should significantly affect case resolution activities. The goal of the Plan is to resolve the 146 institutions in the Southwest that are considered insolvent under regulatory accounting principles, with initial emphasis on 104 institutions in Texas.

To implement the plan, the FSLIC, together with the Federal Home Loan Bank of Dallas, acted quickly to solicit statements of interest from thrifts domiciled in, or having a presence in Texas and from private investor groups. FSLIC then requested proposals from those expressing interest by March 31. We are quite pleased with the response - some 150 proposals were submitted by March 31. Financial analysts are now in the process of reviewing the proposals. Roughly half of these have been reviewed and we have begun preliminary negotiations on some of the most promising bids.

A key objective of the Plan is to preserve as much as possible of the basic structure of and competition within the thrift industry in the Southwest, while consolidating the industry so as to eliminate costly duplication and redundancies in office locations and corporate structures. Another primary objective of the Southwest Plan is to lower the cost of funds. The plan is designed to help reduce nationwide the cost of funds to both thrift institutions and commercial banks. Several newsletters now publicize the "highest" rates available nationally on various types of deposit accounts. In many cases, these listings are a "Who's Who" of insolvent Texas thrifts. The problems of some institutions in Texas and in the Southwest have compelled depository institutions in those areas to pay a premium for funds. This phenomenon has had a ripple effect, raising the cost of funds even for the healthy and profitable majority of the nation's savings and loan industry. Therefore, if we lower the cost of funds nationwide by 25 basis points, it will produce a positive bottom-line impact of $2.3 billion for the entire savings and loan industry.

D. Tax Code Incentives for Case Resolutions

I would like to note for the Subcommittee's attention a matter that could have a significantly adverse impact on FSLIC's ability to arrange acquisitions of troubled institutions. The federal tax code currently includes a number of provisions that are intended to facilitiate supervisory mergers of troubled thrift institutions. In general, these provisions facilitate tax-free reorganization treatment, continued use of net operating losses, and tax-free treatment of certain FSLIC assistance payments made to reorganized institutions.[7] They are currently set to expire at the end of this year. Without the tools available in the tax code, FSLIC's ability to arrange acquisitions of troubled institutions will be severely curtailed or made significantly more expensive. We therefore seek the support of the Subcommittee members in our efforts to preserve and enhance the incentives for assisted acquisitions that are currently provided in the tax code.

E. Asset Management and the Federal Asset Disposition Association

The FSLIC ultimately resolves cases through assisted sales or mergers, or by creating a liquidating receivership. As a result of these transactions, the FSLIC has continued to acquire a substantial inventory of real estate and non-performing loans which constitute a large and growing share of FSLIC activity. As of February 29, 1988, the FSLIC managed 71 liquidating receiverships with $7.3 billion in assets and held $174 million in its corporate portfolio. Proceeds from the sale of assets in these portfolios for calendar year 1987 equaled $601 million. Thus, the FSLIC policies regarding the management and disposition of these assets are a concern for the thrift industry, the general public and the creditors of failing savings institutions. The FSLIC has an interest in maintaining the financial integrity of the thrift industry and a fiduciary duty to dispose of assets in an orderly manner for the benefit of the creditors of failed thrifts.

The primary mechanism used to direct the administration of receivership and corporate assets is the asset business plan which FSLIC requires be prepared for all material assets. In developing a business plan, information necessary for prudent management and marketing is collected, including current appraisals, market analysis, and holding cost estimates. The FSLIC staff or a contractor recommends management and marketing strategies and estimated time frames for sales programs that will provide the highest present value return to the receivership estate without speculating on market fluctuations. These recommendations are then presented to the FSLIC Review Committee for approval.

The marketing process includes analyzing the appropriate markets, assessing the potential purchasers, determining the strengths and weaknesses of the asset to be sold, and evaluating various selling strategies. Most of the properties held by the FSLIC as Receiver or in the FSLIC's corporate portfolio are sold through local brokers; in a limited number of cases, the FSLIC has used both sealed bids and other marketing techniques. Although the FSLIC has traditionally been an all-cash seller, it has found that due to market conditions, competing products, and the lack of third party institutional financing in certain geographic areas of the country, it must consider alternative financing packages in order to broaden the potential market for FSLIC real estate. Therefore FSLIC will evaluate transactions by the saleability of the instruments created and the present value of the transactions.

To assist in the disposition of the assets acquired by FSLIC, the Bank Board on November 5, 1985 chartered the Federal Asset Disposition Association ("FADA"). Unfortunately, FADA's performance during its first several months of operation was less than impressive. The leadership at the Bank Board, the FSLIC, and FADA have undertaken a comprehensive joint effort to reorganize and improve the operation of FADA.

Effective January 1, 1988, the FSLIC executed new Asset Management Agreements for all contractors, including FADA. This contract provides a level playing field for the FSLIC's asset management contractors and a basis to make reliable comparisons of their performance. It allows for consistent, reasonable compensation across-the-board for asset management and disposition fees. In the case of FADA, these fees will simply cover the cost of services provided. Any profit that FADA makes will automatically accrue to the benefit of FSLIC as its only stockholder. In addition to the contract, the FSLIC has developed standard terms for contractors who provide additional technical services not compensated for within the basic Asset Management Agreement. Under these terms FADA provides special legal, accounting, and appraisal services to the FSLIC as Receiver.

The FSLIC has also agreed to pay FADA a small annual retainer fee for services to the FSLIC in its corporate capacity. Under this agreement, FADA currently provides advisory services relating to negotiation and disposition of participation loans, administration of a contractor database, and analysis and placement of property insurance. FADA has completed six such assignments and has nine currently in process.

In accordance with the FADA board of directors' unanimous vote, the Bank Board announced, on January 15, 1988, that former ambassador Gerald P. Carmen was offered the top executive position at FADA. Mr. Carmen is a former administrator of the General Services Administration and board member of the Federal Home Loan Bank of Boston. He succeeds John B. Zellars, who took over as interim CEO last October. Roslyn B. Payne resigned effective with Mr. Carmen's appointment. Mr. Carmen began work on February 24, 1988. Mr. Carmen's immediate focus was to put together a management team to measurably strengthen three areas at FADA: (1) organizational management, (2) ethics, and (3) external affairs, with an emphasis on congressional relations. FADA has hired three new executives who are skilled managers with years of experience in government and the private sector.

With a new contract in place to improve FADA earnings, FADA has taken important steps to control and bring down expenses. Since January, in excess of $1,000,000 has been trimmed from salary expense, on an annualized basis largely through attrition. In addition, FADA no longer uses executive search firms and has plans to drastically reduce other corporate consulting payments. FADA's operating financial condition has also improved. First quarter 1988 results show a net income of $2.7 million on an unaudited cash basis and $538,363 on an unaudited accrual basis.

FADA's real estate operations were reorganized in January to better meet the needs of the FSLIC. A new national marketing and sales group has been created within FADA to increase FADA's exposure to the marketplace. FADA established a toll-free number to help prospective buyers obtain asset information. Approximately 1,000 calls were handled during the first quarter. The group is providing prospective buyers with monthly lists of properties for sale. The March list of over 250 properties went to approximately 6,000 prospective purchasers. FADA continues to enhance the role of its regional marketing coordinators to maximize local contact with prospective buyers and brokers.

FADA has also created a technical group whose mission is to increase FADA's role in providing technical support to the FSLIC. This group will coordinate the delivery of appraisal services and the management of participation assets (loans on which several institutions may have participating interests). The technical group's responsibilities include: identifying, engaging, and monitoring appraisal work as well as reviewing appraisals for accuracy and nationwide consistency: and expanding the use of FADA's expertise in the area of participation assets, including working with the FSLIC and the Federal Home Loan Bank System staff.

Property sales and loan workout activities of FADA continue to provide cash to FSLIC receiverships. By the end of the first quarter, 1988, approximately $405 million has been provided to the FSLIC from property sales and loan payoffs. Another $265 million in restructured loans should provide improved returns to the FSLIC in the future. Total FADA property and loan activity since inception has reached $670 million.

Since its first assignment in July, 1986, FADA has managed in excess of 2,700 assets for 35 troubled savings institutions with a book value of approximately $4.6 billion. Nearly fifty-five percent of these assets have been assigned to FADA in the last year. FADA has also provided asset advisory services to 19 thrift institutions in the FSLIC Management Consignment Program and has worked on 15 corporate FSLIC advisory assignments. Finally, it is important to note that after an exhaustive four-month review, the Bank Board's Inspector General found no FADA criminal misconduct concerning allegations made by William T. Juliano, a New Jersey real estate developer.

III. Regulatory Developments

The most significant regulatory initiative of the past year was the completion of seven major regulations mandated by the newly enacted CEBA. These regulations pertain to Qualified Thrift Lender Requirements; Uniform Accounting Standards; Classification of Assets; Capital Forbearance; Regulatory Capital Requirements; Appraisal Policies and Practices; and Troubled Debt Restructuring.[1] We are proud of having completed the regulations in advance of the statutorily prescribed timetables. Moreover, the Board adopted all the regulations at one meeting (December 21 and 22, 1987) so that for ease of reference within the thrift community they would be printed in the same issue of the Federal Register and would be included in the 1988 annual edition of the Code of Federal Regulations.

Together these regulations represent several significant changes in regulating the S&L industry. Overall, we believe the regulations strike a balance between giving competent and responsible thrift managers the necessary flexibility to make business decisions appropriate for their institutions while giving the Bank Board additional tools to enhance the safety and soundness of the industry and prevent some of the past excesses that have contributed to the current problems of the thrift industry. The regulations as a whole delegate increased responsibilities to field supervisory staff in an effort to create more responsive and aggressive supervision of insured institutions.

The Qualified Thrift Lender regulation was designed to assure that thrifts continue their unique Congressionally defined role of providing housing-related finance. This is accomplished by requiring thrifts to maintain 60% of their tangible assets in housing and housing-related investments. A thrift's ability to meet this test will affect its eligibility for advances from its District Bank and will affect the ability of the holding company parent and thrift affiliates to engage in certain nontraditional thrift activities.

The Appraisal regulation was designed to make thrifts more competitive with banks. It leaves to the management of each institution the responsibility to develop, implement and maintain appraisal policies subject only to certain requisite minimum standards. The Board also adopted a statement of policy to provide guidance on how to develop appropriate appraisal policies and standards. The purpose of the Classificiation of Assets regulation is to ensure that the Bank Board's scheme for regulating classification practices is consistent with the other Federal banking agencies. It places the primary burden on management to self-classify the institution's assets and to establish appropriate loss allowances. It is intended to promote management's careful and informed exercise of its responsibilities and to discourage rote reliance on detailed regulatory directives. In this manner the new regulation departs from the old rule, under which assets were automatically classified if, for example, the loan file did not contain a conforming appraisal.

The Uniform Accounting Standards regulation is designed to bring thrift accounting in line with generally accepted accounting principles (GAAP) by 1993. The individual Regulatory Capital regulation permits the Board to impose higher regulatory capital standards on institutions determined to have high-risk investments.

Finally, two of the CEBA regulations give the Board flexibility to help troubled thrifts to regain economic vitality. The Troubled Debt Restructuring regulation furthers a previously established Bank Board policy of encouraging renegotiation of troubled loans. The new regulation permits institutions to use certain Financial Accounting Standards Board (FASB) principles in accounting for troubled debt restructuring. Under the Capital Forbearance regulation, the Board refrains from enforcing regulatory capital requirements with respect to well-managed institutions that have lent in economically troubled regions and can demonstrate a reasonable prospect for returning to required capital levels.

The emphasis on regulatory responsiveness is also reflected in the Board's accomplishments in reorganizing the applications process. During the past months we have reduced a serious backlog of unprocessed applications. As a result of our efforts, applications of all kinds, ranging from requests to open branches to applications for federal insurance coverage, are processed more quickly. Through a concerted effort during the first three months of 1988, the Bank Board processed 920 applications, cutting the existing backlog by 98 percent. (This total includes 630 new applications that were filed during that period.) Since the CEBA Applications Processing Policy Statement became effective on October 9, 1987, the Board has acted on 1500 of the 1916 applications received.

IV. Examinations and Supervision Activities

Beginning in the second half of 1985, the Bank Board embarked on a much needed restructuring and enhancement of its regulatory function. Critical to this effort was the transfer of the examination staff from the Bank Board to the various District Banks. By removing the examination function from federal personnel constraints, the System was able to significantly expand the number and improve the quality of examination professional staff by offering more competitive remuneration. Since then, the examination/supervisory professional staff has approximately doubled in size.

To further this restructuring process, in September 1986, the Board created the Office of Regulatory Policy, Oversight and Supervision ("ORPOS") as a separate office within the Bank System. This Office is the successor to the former Office of Examinations and Supervision. ORPOS is responsible for implementing national regulatory policies and procedures and for overseeing and enhancing the Federal Loan Bank System's examination and supervision functions.

In cooperation with the Board and the 12 District Banks, ORPOS is directing a comprehensive effort to improve the examination and supervision systems by emphasizing three major areas:

- improving the quality and effectiveness of supervisory and examination policies and procedures;
- improving the consistency and uniformity of the examination and supervisory activities at the 12 District Banks, and
- improving the efficiency of processing applications.

Accordingly, under my guidance, an examiner accreditation program is under development. The first step taken by the end of 1987 was the adoption of a mandatory core curriculum of training for all examiners and supervisory personnel. It consists of three mandatory courses: New Examiner Training, Intermediate Examiner School (conducted after 24-30 months of on-the-job experience), and a Senior Examiner School (at approximately the 48 month experience level). Additionally, two elective courses will be required during each interval. The New Examiner Training session is in operation. Efforts are now underway to complete the Intermediate Examiner School which should be in operation this summer.

In connection with the examiner training program, ORPOS is developing a multi-volume Regulatory Handbook for use by field examiners and supervisory personnel that spells out policies and procedures concerning such subjects as thrift activities, applications processing, and compliance. This is a massive undertaking absorbing dozens of staff from ORPOS and the FHLB System.

A second critical part of the effort to improve the quality and consistency of supervision is a new peer review program to conduct in-depth reviews of the examination and supervisory functions of each District Bank. To date, ORPOS has completed reviews of six Banks, one is in progress, and two more are scheduled for 1988. The reviews are conducted by teams consisting of representatives from the Washington Office and supervisory staff from several District Banks. The evaluations focus on such issues as pre-examination analysis, workpapers, examination reports, business plans, audit reports, monitoring and responsiveness of supervisory actions to examination findings. I firmly believe that this peer review process will continue to lead to improvements in the performance of supervisory activities.

It is significant to note here that following the passage of CEBA, ORPOS worked quickly to develop appropriate materials to ensure that examiners were quickly apprised of its new requirements. It initiated a comprehensive series of training, participant manuals, and video tapes, and conducted three-day CEBA seminars for over 2300 examiners and supervisory personnel at each of the 12 District Banks. ORPOS also made available to the thrift industry copies of CEBA educational materials and guidelines, including a special video training tape.

With respect to consumer issues, ORPOS has recently established a special division to improve and enhance the System's compliance efforts for consumer-related regulations, trust activities and other requirements such as the Community Reinvestment Act, and the Bank Secrecy Act. A first priority of the division is to develop materials that will assist institutions in performing a self-assessment of their compliance program.

One of the persistent criticisms of the supervisory process is the backlog in processing applications and the delay in responding to requests for various types of decisions. ORPOS responded to this concern by initiating a review of functions appropriate for delegation to the Principal Supervisory Agent. The purpose of this exercise is to identify those decisions that due to knowledge of particular local institutions and circumstances are deemed more appropriately made at the local level.

The economic volatility, financial innovation, and intense competition characteristic of the financial services marketplace of the late 1980's poses continuing challenges and threats to the viability of financial institutions. Since assuming my duties as Chairman last summer, ORPOS has significantly enhanced its ability to identify, analyze, and assess the systemic risks to the safety and soundness of the thrift industry. ORPOS recently created a unit responsible for establishing a systematic process to evaluate such perceived risks to enable us to take corrective action before they threaten the viability of thrift institutions. This group is working with the Board's Office of Policy and Economic Research to finalize a program to identify and address interest rate risk.

V. Enforcement and Litigation Activities

The trial and appellate caseload overseen by the Office of General Counsel increased again during 1987. Currently, the General Counsel's Office represents the interests of the Board, the FSLIC, and their agents in some 11,000 matters before state and federal courts across the country. To date, the General Counsel has filed actions on behalf of 72 failed institutions against directors and officers, and other implicated parties such as law firms, accountants, appraisers and major borrowers. The Board believes it is important to seek restitution for the FSLIC fund in appropriate cases, that is, where wrongdoing has been a major cause of an institution's decline or default. Since 1986, the General Counsel's Office has recovered about $180 million from actions against directors, officers and other third parties such as law firms, accountants, appraisers, and large borrowers. In addition, a recent survey conducted by the management consulting firm, Hildabrandt & Co., shows that from January 1, 1986 to September 30, 1987, we recovered over two billion in cash and other property on behalf of FSLIC receiverships.

In addition to these activities, a separate Office of Enforcement, staffed mainly by attorneys, coordinates formal administrative enforcement activities throughout the Bank System when violations of law and regulations and unsafe or unsound practices are discovered. These actions result in the cessation of many unsound activities before they cause serious losses or serve to reduce such losses to the institutions and the FSLIC insurance fund. The Office may prosecute enforcement matters by means of administrative or civil litigation where necessary, but resolves most matters by obtaining enforcement orders or consent agreements. During the past year, the Office of Enforcement obtained 25 cease-and-desist orders and 43 removal and prohibition orders. It also responded successfully to numerous cases of alleged securities violations and alleged illegal acquisitions of control by thrift institutions or their stockholders.

Office of Enforcement attorneys also work closely with the Justice Department to prepare detailed criminal referral letters and, upon request, to assist in its investigation and consideration of criminal matters involving insured institutions.

VI. The Bank System As A Credit Facility

The Federal Home Loan Bank System remains true to its original Congressional mandate of acting as a central credit facility for the provision of home financing. The twelve District Banks together represent one of the strongest central credit facilities in the world. With assets of $ 154.1 billion and a capital-to-assets ratio of 8.9 percent, these institutions turned a profit of over 1.3 billion in 1987 and paid out over one billion dollars in cash and stock dividends to the individual member thrift institutions.

Through its fiscal agent, the Office of Finance, the District Banks raise funds in capital markets that can then be advanced to member thrifts. In 1987, the Office of Finance sold $70.4 billion in consolidated bonds and discount notes of the Bank System. In addition to publicly sold domestic debt issues, the Bank System continues to draw upon global and alternative sources of funding, thereby lowering the ultimate cost of funds to the thrift industry without increasing the Federal debt.

Loans advanced by the District Banks to their member thrift institutions totaled $ 124.5 billion during 1987. This represents a $24.4 billion (22%) growth in outstanding advances over the previous year.

VII. The Federal Home Loan Mortgage Corporation ("Freddie Mac")

Freddie Mac is a congressionally-chartered corporation whose preferred stock is owned by thrift institutions. The Bank Board also functions as its Board of Directors. Its overall purpose is to provide mortgage lenders with an organized national secondary market in which to sell conventional mortgages and to obtain additional funds to meet new demands for mortgages. Freddie Mac serves as a conduit to facilitate the flow of investment dollars from capital market investors to mortgage lenders, and ultimately to homebuyers in the form of more affordable mortgage credit.

The mortgage loans that Freddie Mac purchases from individual mortgage lenders are grouped into pools and sold in the form of mortgage pass-through securities, called Mortgage Participation Certificates (PCs). A PC represents an ownership interest in a pool of residential mortgage loans as purchased by Freddie Mac. The timely payment of interest and ultimate return of principal on the mortgages underlying the PCs is guaranteed solely by Freddie Mac. This guarantee to cover default losses on individual mortgages is backed by the financial resources of Freddie Mac and not by the Federal Home Loan Bank System or the full faith and credit of the U.S. Government. Although slightly off the record year in 1986, Freddie Mac purchased a healthy $77 billion of mortgage loans in 1987. This translates into conventional financing for 1.1 million homes last year.

Since its inception, Freddie Mac has been recognized as a pathfinder for the mortgage finance industry, and has committed its resources to identifying the needs of the industry and developing quality mortgage programs to meet those needs. Both the conventional mortgage PC and the Collateralized Mortgage Obligation (CMO), introduced by Freddie Mac in 1983, demonstrate Freddie Mac's early commitment to pioneering improvements in the mortgage finance industry. In 1986, Freddie Mac responded to the growing demand for Adjustable Rate Mortgages (ARMs) by introducing the first standardized mortgage pass-through security backed by ARMs. To further support the expanding ARMs market, Freddie Mac introduced the first swap program for ARMs in 1987. The ARM security, along with Freddie Mac's ARMs purchase programs, provides lenders with greater flexibility in originating and selling ARMs into the secondary market. When the 15-year single family mortgage became increasingly popular with borrowers, Freddie Mac pioneered the first conventional mortgage pass-through security backed by these mortgages to ensure their continued affordability. These continuing innovations will help assure the provision of affordable home finance to consumers.

In early February, Freddie Mac received authority from the Bank Board to issue mortgage-related securities using a Real Estate Mortgage Investment Conduit (REMIC) tax structure. Created by the Tax Reform Act of 1986, REMICs provide a vehicle for issuing multiple class pass-through securities which offers both issuers and investors certain tax and accounting advantages. As of April 15, Freddie Mac had issued six multiple class mortgage participation certificates under this autority totaling $2.53 billion.

VIII. Staff Compensation, Restructuring and Relocations

On previous occasions before Congress the Bank Board has stated its concerns about employee recruitment and retention problems. Although we are proud of our quality staff, the Bank Board still lacks the flexibility and compensation parity of the other financial regulatory agencies and the concomitant ability to compete with the private sector in offering desirable basic employment packages.

Nonetheless, the Board has taken some very significant moves in the area of staff increases, reconfigurations, and relocations to create a more attractive work environment. To find quality candidates for Board positions, we have mounted an aggressive recruiting campaign to emphasize the very attractive advantages of working at the Bank Board -- the exciting and challenging opportunities presented by the rapidly changing financial services marketplace. To relieve the greatly overcrowded conditions in the Washington headquarters and to consolidate offices currently located in five separate buildings, we have leased a nearby building and are in the process of renovating and refurbishing existing office space.

In FY 1988 the Bank Board and FSLIC will have 1,252 positions headquartered in Washington. This staffing level represents a 31.5% increase in FTE positions from FY 1987 to FY 1988. Most of these positions are designated for FSLIC and the Office of General Counsel's Litigation and FSLIC Divisions to handle problem case resolution. Since July 1985 when the supervisory and examination staff was moved to the Bank System, the number of examiners and supervisory staff has doubled. This has greatly enhanced our supervisory capabilities. We expect continued growth in this area. Finally, with regard to staffing, we note the progress being made in the area of equal opportunity employment. For example, among the 69 new professional staff (e.g., attorneys, accountants, economists) hired by the Bank Board in FY 87, half were women and twenty percent were minority employees.

I thank you for the opportunity to discuss the Bank Board's recent accomplishments. We at the Bank Board look forward, with your assistance, to a productive year ahead.

REFERENCES

1/ This figure together with the $2.7 billion profit for the solvent portion yields the 1987 net industry loss figure of $6.8 billion.

2/ Pub. L. No. 100-86, 101 Stat. 552 (1987).

3/ The funds raised by the FICO bond sales are transferred to the FSLIC in exchange for nonredeemable capital certificates and nonvoting capital stock.

4/ *See* 52 Fed. Reg. 2399 (Sept. 3, 1987).

5/ Pub. L. No. 100-86, § 301(e)(2), 101 Stat. 552.

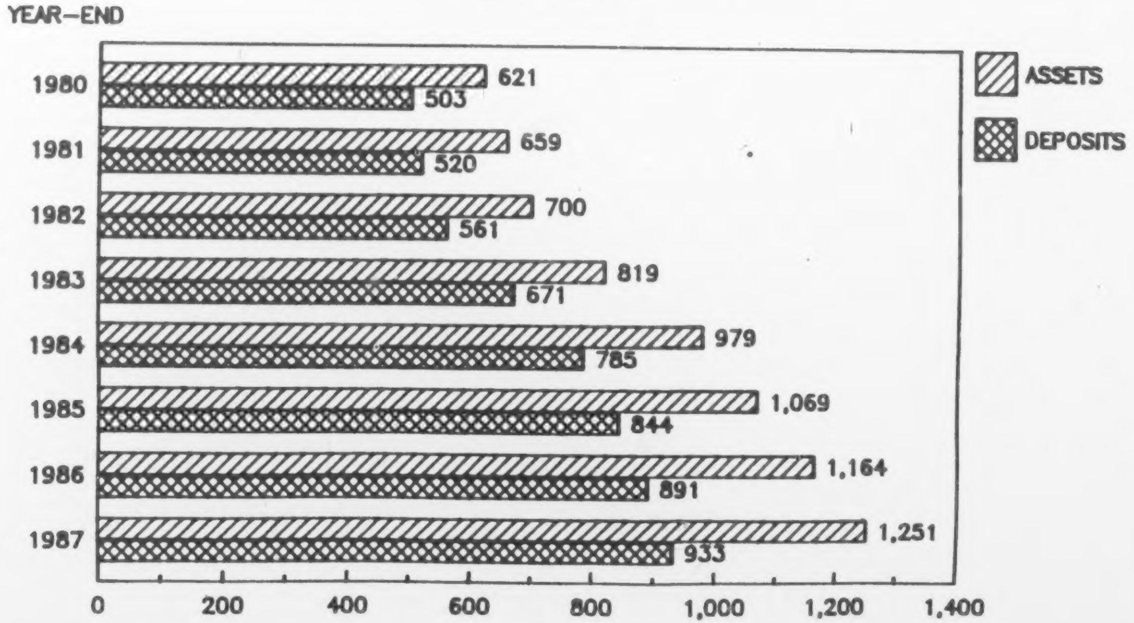
6/ For the FICO's assessment authority, see § 302 of the CEBA (new § 21(f) of the Federal Home Loan Bank Act) and the FICO regulations adopted by the Bank Board. 52 Fed. Reg. 2399 (Sept. 3, 1987).

7/ *See* 12 U.S.C. §§ 368(9)(3)(D)(ii), 382(1)(5)(F), 597, and the last sentence of 563(c)(1) (1982 and Supp. IV 1986).

1/ *See* 53 Fed. Reg. 312-389 (Jan. 6, 1988).

CHART 1

ASSETS AND DEPOSITS
FSLIC-INSURED INSTITUTIONS
($BILLIONS)

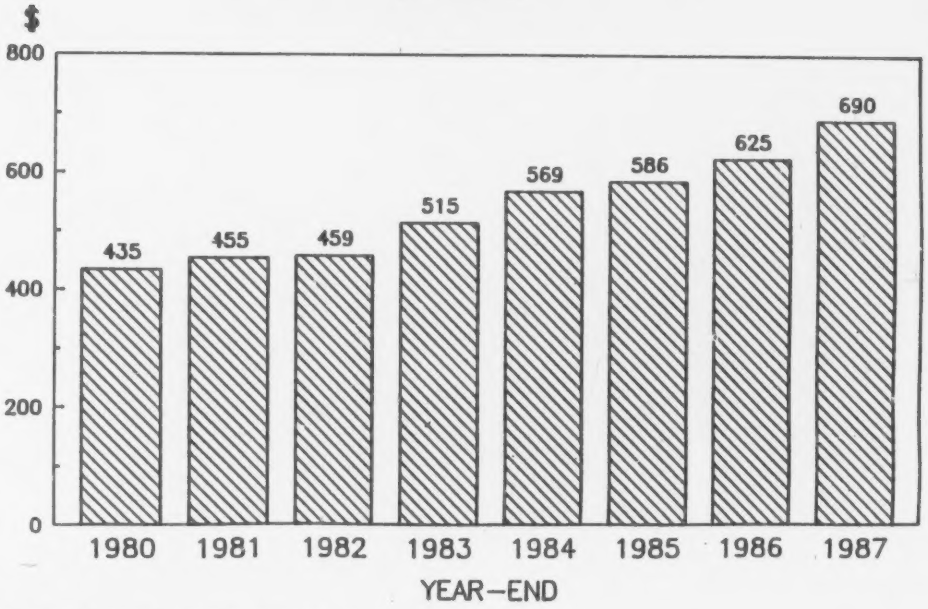


NOTE: 1987 DATA ARE PRELIMINARY

CHART 2

HOME MORTGAGE LOANS HELD BY FSLIC-INSURED INSTITUTIONS

($BILLIONS)



NOTE: HOME MORTGAGE LOANS INCLUDE 1-4
FAMILY MORTGAGES AND MORTGAGE BACKED SECURITIES.
1987 DATA ARE PRELIMINARY.

CHART 3

PERMANENT 1–4 FAMILY MORTGAGE ORIGINATIONS JANUARY - NOVEMBER 1987

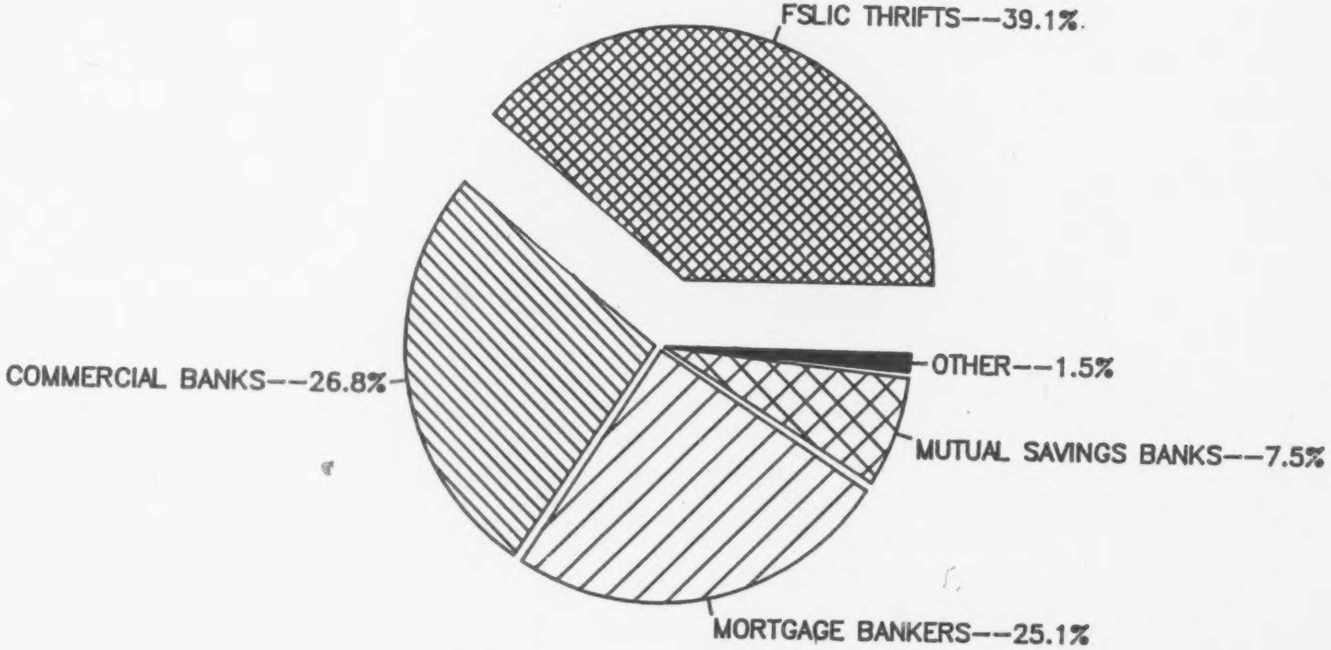


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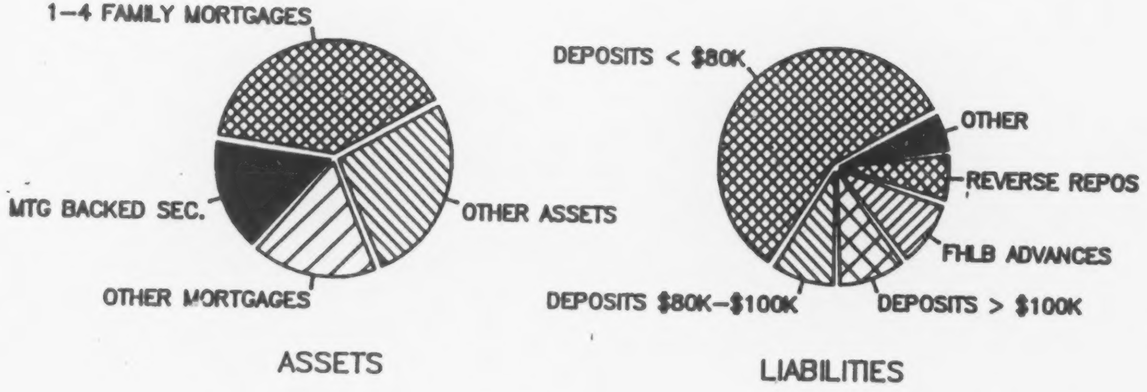
CHART 4

PORTFOLIO COMPOSITION OF FSLIC-INSURED INSTITUTIONS DECEMBER 1987



NOTE: DATA ARE PRELIMINARY

Chart 5

NET LOSSES OF RAP INSOLVENT THRIFTS IN 1987 BY FEDERAL HOME LOAN BANK DISTRICT

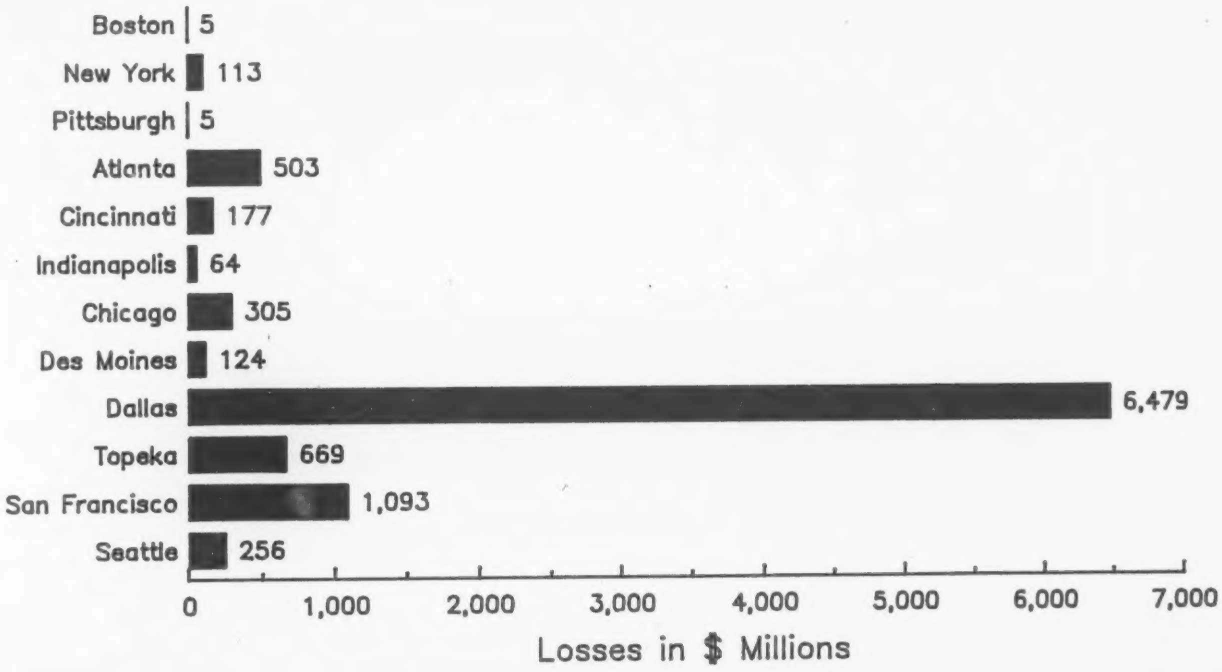


TABLE A

THE FINANCING CORPORATION OUTSTANDING OBLIGATIONS

	Settlement Date	Principal Amount	Interest Rate	Price	Yield	Spread	Maturity Date
SERIES A-2017	October 8, 1987	$500,000,000	10.70%	99.75%	10.73%	90	October 6, 2017
SERIES B-2017	October 20, 1987	100,000,000	10.65%	100%	10.65%	82	October 20, 2017
SERIES C-2017	November 30, 1987	600,000,000	9.80%	100%	9.80%	90	November 30, 2017
SERIES A-2018	February 8, 1988	650,000,000	9.40%	99.75%	9.43%	88	February 8, 2018
SERIES B-2018	April 6, 1988	300,000,000	9.80%	99.71875%	9.83%	104	April 6, 2018
	TOTAL	$2,150,000,000					

COST TO RESOLVE THRIFT INDUSTRY PROBLEMS

Senator PROXMIRE. Mr. Chairman, I want to thank you for the way you have concluded your remarks. We ask every agency that comes before us, and as you know, this is the Subcommittee on HUD and Independent Agencies, which means we have a very large number. You have, without any question, the best record on hiring women and minority employees of any agency that has come before us, which is to your great credit.

In general, Chairman Wall your review has been, I think, most people would regard it as highly optimistic. I think that is a good quality, but I want to ask questions to try to indicate whether it is too optimistic or not.

Last year, Chairman Gray told the Senate Banking Committee that it would cost $23.5 billion to resolve the thrift industry's known problems. Is that figure in the ball park now, or has the situation changed for worse or better? If so, how much?

Mr. WALL. We are, as you know, by virtue of the newspapers and by our conversations with your staff, in the final stages of negotiating and working with our outside accounting firm, which is, of course, that famous firm, GAO. We believe that a number similar to that, very close to that is a likelihood, so that will be not only our assessment of what remains in the problem, but their assessment, as well.

As soon as we have that number, we will, obviously, be providing it to you at the subcommittee as well as to you at the Banking Committee under the provisions of the CEBA legislation which you mandated.

Senator PROXMIRE. When I asked that question, I asked it in terms of the known problems. A recent article in the Washington Post said that the FSLIC deficit could grow in the next few years to anywhere from $30 billion to $65 billion. Is that a realistic threat or possibility?

Mr. WALL. Senator, there are so many variables that come into play. What is the strength of the real estate market in Texas? What is the strength of the real estate market elsewhere in the country? What are the interest rate scenarios in which the loans are going to be made or borrowers are going to have to pay in the market? What is the price of oil? What is the price of gas? What are the consumptions of both?

We can go on and theorize what the picture is going to be, and what we have, under the law, is the assignment to provide what is estimable and probable, not only under the law, but under the accounting conventions. That is the number that we are working on and that is, we think, the responsible portion and the responsible way of looking at the estimate.

Senator PROXMIRE. So while the situation might be worse or better, you think a realistic estimate would be around $23 to $25 billion?

Mr. WALL. Well, you have slipped to $25 billion. We will stay at $23 billion, and that is where we are very close to and are likely to come out with GAO, which is, not only then our assessment but someone else looking over our shoulder and their estimate of what the problem is, estimable and probable.

LIQUIDATION OF FREDDIE MAC

Senator PROXMIRE. There has been some talk of liquidating the Federal Home Loan Mortgage Corporation, Freddie Mac. Would that be of help? Is that really a possible solution? I understand it yielded a substantial amount of money.

Mr. WALL. There has been some talk of it by one reporter in the newspaper. I have not seen it or heard it anywhere else.

TAXPAYER BAILOUT OF FUND

Senator PROXMIRE. The same reporter that you refer to refers in more than one place in a recent article to the possibility of a taxpayer bailout. How do you respond to that?

Mr. WALL. Before July 1, when I was, as you indicated earlier, on the staff of the Senate Banking Committee, and of course, we were, at that time and had been for over a year, working on recapitalization in FSLIC, the question would come up many times. The question continues to come up. I said then and I will say now that it seems to me Congress will look to a taxpayer bailout as the absolute last course of action; that the Congress will look to all other resources, all other courses of action available to them before they would look to a taxpayer bailout. It seems to me that is still the case.

Senator PROXMIRE. I certainly share that view, but my question is: How do you feel about it as Chairman of the Board. You are the key person here. Do you think that is something of a real possibility?

Mr. WALL. No; I don't think it is a real possibility. I think that, as I have said many times, we have the amount of resources that we think we can utilize for now with 2½ years remaining in the borrowing authority period, and together with cash flow and the ability to liquidate other assets, that is as much resources as we think we should put through this process during this period of time.

As the Congress, when they made the decision to approve a part of the solution, not the $15 billion solution, the Congress said, "We want to come back and revisit the question hand-in-hand with the new President." Clearly, sometime into the next calendar year after a new President will be in office, it is appropriate to look at how much progress we will have made with the resources that we have and have remaining at that point and now much of the problem remains. Then Congress, the administration, and the agency will decide what, if any, action is necessary in the near term or if it would be desirable to wait and see what might remain after the resources have been more fully utilized.

Senator PROXMIRE. Mr. Chairman, I want to ask your two colleagues, Board Member White and Board Member Martin, whether they agree with your statement that the possibility of a taxpayer bailout is not realistic.

Mr. White?

Mr. WHITE. Thank you, Mr. Chairman.

I agree with Chairman Wall that we need to use the resources that we have at hand and use them in the most cost effective manner possible, and then, sometime in the new administration, revisit the issue. The agency, the Congress, surely the industry itself will play a part in that process, and see where we are at that time and that is, I think, the appropriate time, really, to be asking this question.

Senator PROXMIRE. What you are telling me is something a little bit different, I think. You are saying that you can't make a judgment now; you will just have to make it later.

I got from Mr. Wall the notion that it is not a practical possibility.

Mr. WHITE. What you are also asking me to judge and make a prediction about is: What will the Congress do? When you ask about a taxpayer bailout, that is ultimately in the power of the Congress.

TAXPAYER BAILOUT OF FUND

Senator PROXMIRE. Are there circumstances that could develop, realistically develop over the next couple of years, that would put you in a position, as a Member of the Board, to ask for a taxpayer bailout?

Mr. WHITE. I mean, there are, as the Chairman indicated, there are various scenarios that one could play out.

Senator PROXMIRE. Then your answer is yes? Is that right? [Laughter.]

Mr. WHITE. You are pushing me very hard, Mr. Chairman. Remember, I am an economist, not a political scientist, and it is very difficult.

Senator PROXMIRE. I would much rather get an answer from an economist than a political scientist on this question.

Mr. WHITE. The question of urging a taxpayer bailout is a very serious question, Senator, and again, I would have to see what the scenario looked like, what the possibilities look like, before I would urge that.

Senator PROXMIRE. Then I would take your answer as a highly qualified yes, there is a possibility.

Mr. Martin?

Mr. MARTIN. Well, Senator, I believe that the answer to that question is the wild card of what happens in the marketplace as far as real estate. Having been very familiar in developing the concept for the Southwest Plan and being very familiar with the situation in California with FCA, a lot depends upon what happens with real estate.

In the case of the Southwest Plan, I think we have 146 institutions that have close to $20 billion worth of REO and TDR's and nonperforming and underperforming loans. Just a 10-percent swing one way or the other makes a tremendous difference. So we are subject to the marketplace.

Senator PROXMIRE. In other words, you are telling me that you have a 10-percent swing; it would make a huge difference, and it would.

Mr. MARTIN. That is right.

Senator PROXMIRE. You might have to ask, under those six, for a taxpayer bailout, right?

Mr. MARTIN. I don't know. If you are asking me to question my position on taxpayer bailout——

Senator PROXMIRE. I know you are opposed to it; all of us are. The question is, you have to do what you have to do. We have the full faith and credit of the federal government behind the deposits in the savings and loan banks so that we would have to fulfill that, and I am sure we would.

Mr. MARTIN. I would also like to point out that the accountants are looking at this, possibly, under a worst-case scenario. Let's bear in mind that under the policy of the new Board, we are negotiating for FSLIC part of the action, which would make a tremendous difference downstream if our programs are successful.

SALE OF FICO BONDS

Senator PROXMIRE. Chairman Wall, let me ask you one more question on my time. Is FSLIC having trouble in marketing the bonds that are being issued under the $10.8 billion borrowing authority?

Mr. WALL. As I indicated, we have had four public offerings and we, in conjunction with Treasury, set up a program where we have a date, as they say, every other month. It so happened that our turn came up in March, at a time when we have subsequently learned that the Japanese, for a number of reasons, were getting out of the market for U.S. government securities as well as U.S. agency securities.

During the month of March, the Japanese, under Treasury's estimates, have disposed of at least $10 billion worth of U.S. government and agency securities, because they had accounting and tax provisions that they had to accommodate by the end of March, which is the end of their fiscal year. So we found a lot less; we found, actually, a resistance from the Japanese market where the Japanese and other Asian markets had been very significant in the earlier offerings.

So we made what we thought was a judicious decision to lower the amount that we were seeking in the market in March, in the midst of that market upset, as tar as the Japanese market was concerned. It additionally came at a time, our date in March, came at a time when the two large banks in Texas were getting a lot of headlines. Interesting as it may seem, that particular or those particular institutions' notoriety in the newspapers have caused us more difficulty than the problems of the thrift industry have caused us or the problems of individual institutions in the thrift industry had caused us during that period of time.

I think now is the period, and time has permitted that situation to settle down as far as those two institutions in Texas are concerned, and as we move into what we think will be the implementation phase of the Texas aspects of the Southwest Plan between now, and, say, the end of the first week in May, we think that there is going to be a significantly different reception.

Senator PROXMIRE. So you have had difficulty, and it is partly because——

Mr. WALL. We didn't have difficulty, Senator.

Senator PROXMIRE [continuing]. We are enormously dependent on the foreign lending by the Japanese.

Mr. WALL. We didn't actually have difficulty. We anticipated it by turning down the amount we were seeking. We didn't have difficulty. We decided not to experience difficulty by trying to seek more money.

Senator Proxmire. My time is up. Senator Nickles.

RECAPITALIZATION

Senator NICKLES. Mr. Chairman, thank you. I will join you in complementing Chairman Wall. I think you have done a good job in a very difficult job. I would also say, in my evaluation of all of the positions that are available in government, it is probably one of the most difficult and probably will continue to be one of the most difficult for the next several years.

To follow up on the Chairman's line of questioning, last year Congress passed the $10.86 billion recapitalization plan but current estimates of needs require $23 billion. In spite of the fact of looking at how the response has been, would one option be to increase the amount of borrowing authority that FSLIC would be able to go into?

Do you think that your borrowing power in the marketplace would substantiate an increase 2 years from now or a year from now from the $10.8 to $23 or $25 billion?

Mr. WALL. The borrowing authority that was granted by the Congress for the FSLIC through FICO to access capital markets is a factor of the ability of the industry to pay the interest on those borrowings. That would have to be an assessment made it and when the Congress would be looking to expand how much could be borrowed; there would have to be an assessment made as to whether or not the industry could afford to pay an increased amount for the interest or if other resources might be somehow identified to pay the interest.

The principal, as you will recall, is to be paid by the maturing of zero coupon bonds that are bought with cash that was taken on a one-time or that is taken on a one-time basis from the earnings of the 12 District Banks that I mentioned earlier.

Because of where zero coupon bonds are as a cost right now, that being a fairly low cost, there likely would be some room there. The question would be: How much room is there on the ability to pay interest by the industry or some other source?

Senator NICKLES. Would the wealthy districts oppose such an expansion?

Mr. WALL. Districts at the bank level or among the institutions?

Senator NICKLES. No; at the bank level or at the institutions? Would you have member institutions that would be closing, trying to become banks, get away from that type of assessment?

Mr. WALL. It is a question that, clearly, is out there. It depends, really, in a real sense, on how long someone's memory happens to be.

I have two charts I would like to share with the members of the committee which show two periods of time and the amount of premiums being paid by the District versus the amount of FSLIC resources necessary in the District, and as you will see by a quick review, if somebody could take that up, as you will see by a quick review, there was a very sudden shift in just this decade.

From 1980 to 1983, the New York District, the Chicago District, and the Des Moines District were the big users of the premiums. It has shifted so that now, in the 1984 to 1987 period, the Dallas and the Seattle Districts are the big users.

So it depends, to answer your question, it depends on how long or short someone's memory is as to how recently they, themselves, were in a period of difficulty and the economy has shifted such that they now don't have those problems.

This also would be a way of looking at how much and how quickly real estate markets can shift, as far as what might we be seeing in terms of the dynamics of the marketplace. The marketplace can shift very dramatically and very dynamically as real estate plummets, it also skyrockets. You have here another way of looking at just that kind of experience.

The Northeast, generally, has seen significant recovery of real estate values. Hence, the industry sees significant improvement. On the other side of the aisle, certainly, the area of Oklahoma and Texas has had its very severe difficulties, because it is very heavily related to oil, gas, and agriculture.

DALLAS AND TOPEKA DISTRICT BANKS

Senator NICKLES. Mr. Chairman, are your two banks that have been losing money, the Dallas and Topeka banks?

Mr. WALL. The industry in those two Districts lost money for 1987. The total, the industry on an average, lost money in those two Districts.

Senator NICKLES. Did I hear you correctly in your opening statement? Did you say that they had a negative 15 percent in Dallas?

Mr. WALL. No. That was 10 percent of the industry that is insolvent had a negative regulatory capitol-to-assets ratio of 15¾ percent last year.

Senator NICKLES. In that 10 percent, is that primarily out of the Topeka and Dallas regions?

Mr. WALL. Largely.

OKLAHOMA PROBLEM INSTITUTIONS

Senator NICKLES. Largely. You came up with a Southwest Plan, I know, that deals primarily in the Texas area. I am aware of the fact that you are working on a plan that would encompass the Topeka Bank, and particularly Oklahoma that I have my interest in. I know that you have been working on that. Can you bring us up to date on what your timetable is for some assistance for Oklahoma and some of the Topeka District that are experiencing some difficulties, as well?

Mr. **Wall**. Senator, this year, we have dealt with, I believe it is, three institutions in Oklahoma in a transfer of insured accounts so as to put those accounts into the hands, and the management responsibility, of viable institutions that have a prospect to exist on into the future.

Additionally, I believe it is Wednesday of next week that I am going to be meeting with the Governor of Oklahoma at his request to review a plan and some proposals that he has. So as you said, yes, we are looking at what it is we can do and how it is that we can do it in Oklahoma, as well as we have, as I have said, dealt with three specific institutions in just this year.

Senator **Nickles**. The problems that we have in Oklahoma, are they comparable to the ones in Texas proportionally?

Mr. **Wall**. Proportionally?

Senator **Nickles**. We have 54 institutions, I believe, in Oklahoma, a majority of which, I think, would be technically insolvent. Is that comparable to the institutions in Texas or are the ones in Texas in that much trouble?

Mr. **Wall**. In Texas, the proportion of the industry that is RAP insolvent is just over one-third. Oklahoma, I am told, is perhaps over one-half insolvent or thereabouts. We will get you the more specific statistics, Senator. But the point is made that the problem is not as deep in each of those institutions as in some of the Texas institutions.

[The information follows:]

OKLAHOMA INSOLVENCIES

There are currently 53 institutions in the state of Oklahoma of which 18 are considered RAP insolvent. This one-third insolvency coincides with that of Texas, but the problems in the Oklahoma institutions are not as deep as those in some of the Texas institutions.

COMPLAINT WITH FADA

Senator **Nickles**. I would appreciate the information. I would also continue to encourage you. I want to thank you, too, for meeting with some of the Oklahomans who are trying to resolve this problem. I would like to share with, not only yourself, but a couple of the Board Members, the conversation that I had with you over the phone.

I listened very attentively to some of the changes that you had mentioned concerning FADA. I can tell you that we had some complaints, and I think some changes were necessary, and I am hopeful that those changes will be responsive. In one particular institution, they were dumping a lot of assets on a very depressed market in a mismanaged style, changing regulators on a very frequent basis.

The people in the community were dealing with a different person every month, and as a result, FADA ended up owning a significant amount of the resources and assets in the particular community, Woodward, Okla., and in my opinion, further depressed in an already depressed market.

Individuals have met as recently as last week, and I am hopeful that they will resolve some of that problem. But in my opinion, the way it was being handled in the past, they were exacerbating the losses by FSLIC and also generally depressing the market even in a greater manner.

So I encourage the changes, possibly in management, but also in the disposition of assets. I think you would want to maximize your assets to the greatest degree and minimize your losses. Certainly, that was not happening in this particular circumstance.

I do look forward to working with you, Mr. Chairman, to see if we cannot come up with a positive plan to minimize the economic pain that we have in our state and the losses that FSLIC would incumber, as well.

Mr. WALL. It is as a result of that kind of problem that we have undertaken, as I said earlier, to leave more of the assets, if not all of them, in the surviving institution, because that institution has a future. It intends and expects to be in business in that community going forward and does not want to have a record of having dumped real estate into the market.

We think it is much more appropriate, and that is a good part of why we have taken that particular strategy and why we are utilizing that in terms of not taking the assets out of the institution, creating the receivership that has, then, its goal in life to dispose itself of those assets.

Senator NICKLES. I appreciate that. Thank you very much.

Senator PROXMIRE. Senator Grassley? I beg your pardon. Senator D'Amato. Senator Grassley has improved greatly in appearance. [Laughter.]

Senator D'AMATO. I am glad you say that, Mr. Chairman, because my son is here. I wanted him to hear that. [Laughter.]

STATEMENT OF SENATOR D'AMATO

Mr. Chairman, it is good to see Dan Wall here, and he is struggling with a momentous problem, one which I really wonder if we have, in the Congress, any idea, and the people, of just how bad that problem is. We talk about the real estate markets being depressed in the Southwest; let's say in the Dallas area, in particular. I spoke to a friend of mine the other day, and I said to him—and we have to understand as it relates to these loans that were made, many of them were good loans, loans predicated on a building that had been constructed and that, indeed, had full occupancy and was paying off its mortgage, the outstanding indebtednesses, and, in some cases, turning a tidy profit.

When the collapse of the energy market hit that region, many of those people who provided services directly and indirectly for that very important segment of our economy broke their leases, left, or, at the expiration of those leases; no longer continued. Consequently, we could take a good property that had very real and substantial value and we diminish that value tremendously, tenfold, in some cases.

Some people say, "Well, what about the recovery of that marketplace?" I asked that of a rather knowledgeable person in that region, and he said to me, and I believe with this committee, with Mr. Wall, that in his opinion, the worst is not over. As a matter of fact, if you have a bank, for example, that has foreclosed and its cost and it is not paying the mortgage, it is not paying interest, it is simply taxes and whatever expenses to keep that building or those properties from further deterioration are, let's say, $5 a foot, why, then, what happens where you have buildings where people are getting $10 and $12, you will find those people moving. The only industry down in that area that is really doing well are the movers, because they move the people who are in the buildings who are paying $10 and $12 to take over those who the institutions are happy to turn over because it is costing them $5, so they have to turn it over for $5 or $6.

In other words, the bottom price is the price that is driving, Mr. Chairman. It is the lowest rent and not what even buildings or facilities that are fully rented are getting.

Let's not all chalk this off to that kind of case that was uncontrollable. In addition, we had the most incredible kiting of all times. Indeed, there are some of those bankers that deserve to be thrown into prison because they engaged in an unlawful scheme, a ponce scheme, whereby the last one in played incredible values where there never were and never should have been a facility that was built at $5 million and passed it on to someone else at $10 million and another at $15 million and so on.

So you had a combination of the high flyers and a combination, also, of those results which absolutely were unavoidable as a result of the collapse of the energy market and the kind of situation where good buildings, good property, sound values, through no fault of anyone's, really lost more than 70 and 80 percent, in some cases, of their value.

That gives us the problem that Mr. Wall and his people are wrestling with. It is going to take all the ingenuity. I would suggest that if we think we are going to turn the corner quickly, then we are naive. I have shared one of those naive feelings sometime ago when I said to a very, very knowledgeable person, "When is the Houston-Dallas area, is this the time to come in," and he said, "Senator, whenever I go up to New York, I hear the same question." He then gave me this explanation as to why that marketplace is not going to turn nearly as quickly as some of us in our simplistic overview have thought.

RECOGNIZING NOTES PAYABLE AS OUTLAYS

That being the question, it seems to me that we are going to have to attempt to give to this Board and to Mr. Wall and his people all of the support possible. I think we should certainly be careful of new pronouncements. With that, I am going to ask just one question, Mr. Chairman.

That has to do with OMB. I note that the Office of Management and Budget wants to score, for deficit purposes, notes issued by FSLIC to subscribing institutions. Now, FSLIC pays interest on those notes but they are not directly federally guaranteed. These notes have never been regarded as on budget before, and it seems to me that that would be rather distressing for a number of reasons.

But Mr. Wall, I would like to get your views on the implications of such scoring both for FSLIC and for the federal budget, what that would create.

Mr. WALL. There are a handful of government agencies, independent agencies, that have the kind of a problem where a debt instrument is now, as you observe, being proposed to be scored as an outlay. I might add, it is not OMB unilaterally; it is OMB and CBO that have made the decision that not to do so was in error and that they are now going to revert as of the next fiscal year to what they believe is the appropriate treatment.

So that it is OMB and CBO who are making that analysis. They are making that observation and going forward. As far as the impact, it clearly is going to impact on the federal budget in the sense of expenditures or outlays in a budgetary sense and it is something that is going to have to be accommodated within the budget, whether it be us, whether it be FDIC, whether it be some of the other entities in the government that have that note-issuing authority or the authority to issue something that looks like a note and would be affected by this as far as those government entities are concerned.

I don't see it as anything of a dramatic significance, because it can clearly be accommodated within the budget and within the projections, but there could come the time when, again, whether FDIC or whether FSLIC or whether any of these other entities would find themselves needing to undertake to issue such an instrument in a larger amount than might have been anticipated for that calendar year and would put a larger negative on the budget than would have been anticipated. But those kinds of things you can anticipate, but you can't budget for them.

Senator D'AMATO. How much money are we talking about, for example, if we were to use last year's figures?

[The information follows:]

FSLIC NOTES PAYABLE

Estimates of FSLIC notes payable issued as outlays have changed since the President's budget was submitted. The changes are primarily due to the Southwest Plan; FSLIC's current estimates of notes payable issued as outlays include consideration for the Southwest Plan. The table below displays these estimates:

[Dollars in thousands]

	1987 Actual	1988 Estimate	1989 Estimate
FSLIC notes payable issued as outlays:			
President's budget	$919,644	$3,986,000	$2,000,000
Current estimates	919,644	6,267,000	3,478,000

Mr. WALL. Last year being the current government fiscal year ?

Senator D'AMATO. Yes.

Mr. WALL. Previously, there had been an annualized allocation of the expenditure or of the obligation that had been put on budget. So if the note was a 5-year note, then one-fifth of the interest was necessary to be paid in that year. I will have to get you the numbers, Senator, because there are a wide range of maturities out there. I will have to get you the numbers.

Senator D'AMATO. I want to ask you, when you do that, to look into projecting what that might be.

Mr. WALL. Oh, we are projecting, as a matter of fact, as we speak. That is one of the pieces that we are working on.

Senator D'AMATO. For next year?

Mr. WALL. Yes. Yes.

FRAUDULENT ACTIVITIES

Mr. WALL. I would make one observation about something you commented about, Senator, and that is the matter of wrong doing, fraudulent activities on the part of managers or insiders in institutions. In the case of Vernon Savings, which has gotten a lot of headlines and has a lot of notoriety, and unfortunately, appropriately so, two of the very senior inside professional members of the staff have gone state's evidence, and the White Collar Crime Task Force that is underway in Texas tells us that that might cut as much as one-third of the time out of the time necessary to bring to justice those who will be found, if such is the case, as having perpetrated fraud.

So that there is a lot of activity. There are 50 professional members of that White Collar Crime Task Force in Texas: FBI, Justice, and, I am proud to say, Federal Home Loan Bank Board staff. Even though we don't have to provide those resources, we are doing so. As we make the references and referrals to them, we are also continuing to provide some of our staff available so as to interpret and identify the uniquenesses of the industry to that White Collar Crime Task Force, the likes of which has never, I am told, existed in this country for Justice and the FBI.

Senator D'AMATO. Let me applaud you, Mr. Wall, because really, what we see in those who have undertaken, and I am saying, relatively a small handful, they have jeopardized billions and billions of dollars by these kinds of scams of taxpayers' money in the final analysis. We are trying to limit that and prevent that, and you are struggling valiantly against a difficult economic tide in that part of the country. But they have certainly exacerbated it. The people who nave misplaced their public trust in that manner certainly should feel the full measure of the law, and I want to congratulate you.

I was not aware of your loaning the institution and its resources to track down those who have been responsible and to work with that White Collar Task Force, and I want to congratulate you. I shouldn't be surprised, because anything Dan Wall has ever undertaken, he has undertaken with total dedication. Once again, we stand ready to work with you in a very difficult situation.

PREPARED STATEMENT

That is all I have at this time, Mr. Chairman. I would request that my prepared statement be included in the hearing record.

Senator PROXMIRE. Without objection, so ordered.

[The statement follows:]

STATEMENT OF SENATOR D'AMATO

I'd like to welcome before this committee Chairman M. Danny Wall of the Federal Home Loan Bank Board. Danny is well known to me and to many here from his years of service as staff director and minority staff director of the Senate Banking Committee. We had, may I say, an excellent working relationship on the Banking Committee, and I am very pleased to see him here this morning. I look forward with interest to your testimony, Danny.

Certainly, no one here doubts that you have your work cut out for you. You are charged with administering regulatory authority over an extraordinarily troubled industry, the consequences of whose problems extend throughout our financial structure. I will not attempt this morning in this committee to discuss at any length the many complex and difficult issues that the Bank Board faces, or to discuss how Congress should address them. That is the business of another committee where I hope you and I will have ample opportunity to continue to work together in dealing with those issues.

This committee, however, is concerned with determining the adequacy of the resources available to your agency in tackling its responsibilities. To that extent, an appreciation of the scope of the problems is appropriate.

The Bank Board is unique among the agencies represented here this morning in that it is not funded by appropriations but by assessments and fees paid by member banks and to the Federal Savings and Loan Insurance Corporation. I note that, based on the number of institutions, membership in the Federal Home Loan Bank System has declined in the last few years. That decline is expected to continue. However, the consolidated net assets of member institutions has risen substantially. As the Bank Board depends for its fiscal solvency upon that of its member institutions, I look forward to your discussion of the implications of these trends for your funding base in fiscal 1989.

FSLIC is obviously quite a different story. Despite the efforts of the Congress in passing the Competitive Equality in Banking Act with its accompanying FSLIC recapitalization scheme, concerns about the adequacy of the system where potential liabilities so vastly outweight present and projected assets is only natural. This hearing may not be the best forum for a full discussion of that topic, but I certainly look forward to your comments regarding the implications of this situation for the FHLBBS ability to meet its own budgeted cost.

Perhaps the most important question that I have for you in view of the magnitude of the problems that you must deal with and the importance to so many Americans of the soundness of both FSLIC and the institutions it supports, is simply this: What else could we in the Congress, and especially on this committee be doing to help?

Once again, welcome and I look forward to your testimony.

APPLICATION PROCESSING

Senator PROXMIRE. Senator Grassley.

Senator GRASSLEY. Thank you, Mr. Chairman. I fully appreciate people like Senator Proxmire, Senator Garn, and Senator D'Amato who have served for a long time on the authorizing committees involving financial institutions. But I, too, have some questions I would like to ask. I would also like to echo what I heard Senator Nickles and Senator D'Amato say. That we have heard from the people in Iowa's financial institutions about the good job that you are doing. It's a tough job and tough circumstances. I need to echo that, so you know that even though everything in which we disagree might seem highlighted, that doesn't mean that we forget the good things you do, as well.

Particularly, I would like to echo my appreciation for your responsiveness to my office in regard to the handling of the application of MorAmerica Co. for FSLIC's insurance for its proposed new savings and loan. We have 18,000 Iowans waiting for a final solution to that problem. I know it has taken, probably, a little bit longer than they can understand. At the same time, we feel like we are making some progress.

My first question is about the length of time that it has taken the Bank Board to handle particularly that application or other applications, whether for insurance coverage or for financial assistance. What are you and your staff going to more expeditiously process applications? I am only familiar with the MorAmerica application, but I understand that we have problems elsewhere, as well.

Mr. WALL. Senator, one of the eight regulatory assignments that Congress gave us in the Competitive Equality Banking Act that was signed into law last August was to create and put into place an application's tracking mechanism. We did that, effective the day we took the action.

Of the eight, this was the only one that we made effective immediately, and we put it into place, and I have personally chaired the application tracking sessions, with few exceptions in terms of schedule conflicts, since then. That was October 9 of last year.

When we put that process into place, there was a significant backlog of pending applications. We have been able to reduce that backlog by 98 percent in that timeframe, and by "significant"—and I am looking at a document trying to ferret out the number, and I cannot find the number of existing applications at the time. It was 480 applications that were pending in the pipeline at the time.

Since then, we have received 630 new applications. So over 1,000 applications have been on our agenda. At the same time, we have been able to eliminate 98 percent of that 480 that existed and continue to make headway with the new applications that have been coming in.

We have seen an unprecedented inflow of new applications, which prompts me to ask a lot of questions as to why we are we getting applications? Previously we were not getting applications because people just didn't want to take the trouble, or are we getting applications now because they realize the system is more efficient?

I don't know, but we are getting significantly more applications, and even so, we are able to continue to make headway on those and not fall behind, while at the same time, as I said, having, to date, eliminated 98 percent of those that were pending such as the application you indicated. We are down, now, to, I believe it is, 6 applications that are pending of that 480, and those are, obviously, the nasty little problems and tough little problems that we are trying to work our way through, but we will do that, as well, in the near term and as I say, all of the time, not losing ground to that plethora of new applications that we are seeing come in.

EFFECT OF APPLICATIONS PROCESS ON ASSISTANCE

Senator GRASSLEY. As you go through this process you just described, to what extent are you weighing the concern for detail against the probability that cases needing assistance will worsen in whatever period of time it takes, whether it is the expedited procedures you just described or the older procedures that this is trying to correct?

Mr. WALL. You raise the issue of FSLIC assistance, as well, and there, too, I am, on a weekly basis, sitting with the staff who are responsible for that and going over what we are calling FSLIC review to make everyone aware of the point you just made, that for every day that goes by, the problem grows, whether it be in that particular institution we are acting on or an institution that would be the next one once we dispose of that one.

So we are, from the very highest level of the agency, trying to make everyone aware that that is a problem and a challenge, but at the same time recognizing that we have responsibilities because of our public responsibility to the Congress. We do not intend to violate that trust and that responsibility, but at the same time, we are going to make sure that we move as expeditiously as we can, whether it be an application or whether it be an assisted merger or insurance action.

LENGTH OF TIME FOR APPLICATIONS PROCESSING

Senator GRASSLEY. I would like you to refine what you just said in somewhat statistical terms. Could you tell me what might be the average, or maybe it would be to correct to say the median length of time, that is required by the Board to process applications for assistance and applications for insurance?

Mr. WALL. Off the top of my head, in 1986, the average time was from 18 months to 2 years for an assisted transaction. In 1987, that was reduced to about 9-months to a year. But remember, in both of those timeframes, there was a problem of inadequate resources, as well as the legislative process that led to the FSLIC recapitalization was in progress.

Some of that delay, some of that time period is artificially extended because they just ultimately, in some cases, weren't even able to take the action. They had to go partway down the road and simply suspend the process. We have every intention of cutting that timeframe to something significantly less than 6 months.

Senator GRASSLEY. How many cases have worsened in their financial condition in the time period between their application for assistance and the resolution of their case?

Mr. WALL. Senator, most of them would have worsened because of just the passage of time. Some situations have gotten better to the extent that FSLIC assistance has not been required or that other investors or people have been found to come in and recapitalize the institutions.

So that it is not all a negative, but in large part, an institution could be resolved today for less money than it could be resolved a month from now if we didn't have the responsibilities of the legal requirements, which I think we ought to have. But to answer your question, no.

SOUTHWEST PLAN

Senator GRASSLEY. Could I turn now to your prepared statement for today. I don't think you went through all this statement, did you?

Mr. WALL. Not that one; no.

Senator GRASSLEY. You summarized it.

Mr. WALL. Yes.

Senator GRASSLEY. On page 10, you speak about the Southwest Plan. My question is simply this: To what extent will the attention given to the Southwest Plan by the Board deplete the Board's resources, both in terms of the staff time and the FSLIC funds, in dealing with troubled institutions in other parts of the country?

As you know, thrifts from the upper Midwest have problems, as well. We would like to make sure those problems are handled; so hence my question.

Mr. WALL. As you know, we have been dealing with problems all over the country, including three in Waterloo, Iowa, not too long ago.

Senator GRASSLEY. I know those were resolved.

Mr. WALL. All of the activities that we have been involved in from literally August 10, when recapitalization was passed and signed into law, through to date have been ongoing at the same time the Southwest Plan preparation and analysis has been ongoing. So it hasn't been interrupted at all.

We have continued, as in the Senate, when there are two lines of legislative activity on the floor; we are on a two-track method and we have the Southwest Plan on-going. As I indicated earlier, we would expect to begin to announce resolutions if not this week, then certainly, the first week in May, and the pace will pick up as we move on into the summer, all of the time since August 10, having dealt with institutions at a fairly significant rate of speed, as well.

We have indicated that for the last 4 months of last year, we averaged one institution a week during that period of time. Not including the Southwest Plan, we intend to continue that average through the course of 1988, 52 institutions, not including the resolutions that will be involved in the Southwest Plan. So it has not caused us to lose our attention or our focus elsewhere in the country.

Much to the contrary. We see that as a continuing challenge, where we have dealt with institutions around the country, three institutions in one package in Iowa; three institutions in one package in West Virginia; and the list goes on and on. We have dealt this year With 17 cases in just not quite 4 months that have gone by.

Senator GRASSLEY. My last point is not really a question. I was pleased to read, Mr. Wall, your response to Mr. Boland's suggestion about a bounty for people who might expose the leaking of information. I speak in the vein of a person who has been trying to encourage whistle blowing, though probably more in the Defense Department than any place else.

Of course, Senator Proxmire has been more of a leader in that area than I have been. But I know that in all bureaucracies, but maybe a little bit worse in the Defense Department, there is a great deal of peer pressure to "go along to get along." When that reaches a point where that discourages or cools information coming to Congress, then that is very much a violation of the whistle blower protection legislation. That is very much the antithesis of the way the checks and balances system of our government ought to work.

So I appreciate your response. I hope that that would not in any way mean or imply in your Department that there is any effort to keep people who know of wrongdoing, or of something not being right, reporting that.

Mr. WALL. Senator, I would like to respond in a couple of ways, if I might. I don't see it as whistle blowing, and that is not why my response was as it was, the DOA. I see this as people who are using, inappropriately, confidential information. We are not a department of the government. We are an independent agency, and we are such because we have access to and possession of information that is very confidential and is very sensitive.

Those people who see fit to share willy-nilly that information with reporters are violating a public trust, are violating the trust that we have by virtue of the law, and that is, as I say, part of why we are an independent agency and not a department of the government.

It is not appropriate for someone to share the information from an audit of a private sector company, whether it be an audit performed by our examiners or whether it be an audit performed by an outside CPA. That is inappropriate and it is irresponsible. It is something about which we are very troubled, because we find ourselves having to deal with what we read in the newspaper; you see sources quoted; you see sources referenced. You don't see names. They are identified as sources.

We have the responsibility and we have the information, and in many, many cases, we have the legal advice that is telling us, yes, we can, or no, we can't, and it is inappropriate, I think, for others to sit there and, by virtue of, in a sense, sneak attacks, to make information on a selected basis available where they know full well we are not in a position to make that information available.

One other aspect, if I might add. We had, and still are, underway in negotiating with trying to deal with the largest savings and loan in our troubled list, which is now the second largest institution in the country. You may recall last fall and into the winter we were having a lot of headlines, a lot of attention focused on one of the partners with whom we were negotiating at the time.

We saw fit to have to get that out of the newspaper in order to make progress, in order to make some headway on dealing with that troubled institution. We were successful, fortunately, to keep it out of the newspaper for in excess of 3 months until about 10 days ago, and we made some progress. I think time will reveal that we have made some very good progress.

But there are times and there are places for public information and the need to know, but there are other times when it is irresponsible. I certainly am one who will not give ground to anyone in terms of my feelings and my personal commitment to make the information public when it is appropriate and in a form in which it is appropriate. I am very deeply troubled by the problems of having to deal with those who, on their own, as I say, on a sneak attack basis, make the attempt and make the judgment that they know something that someone else ought to know, and yet they don't know all of the facts that relate to the information they are sharing.

Senator GRASSLEY. I am not sure that I would disagree with what you just said. But I am not sure that that was necessarily a response to my statement. I pointed out what whistle blower legislation is to protect. Are you telling me, through your statement, that you are going to impede the flow of information to Congress? I know that there is certain information that should not be made public. This is true whether it is national security information or very sensitive information that you have that would do harm to some private institution or private person.

I am talking about what is in the public domain. So when I read about this within any department, I am concerned about what is in the public domain. What is a violation of law or what is wrong, as opposed to what you describe, which is very accurate?

Then that concerns me. I don't want to let that get by without my understanding, my indicating to you, that that sort of violation or protection for civil servants' rights has to be respected both within the bureaucracy as well as on the Hill.

Mr. WALL. As I said, I am as forthcoming and will continue to be as forthcoming as anybody in terms of what is appropriate and what is proper to provide to the Congress and when it is appropriate to provide it.

TRUTH-IN-LENDING COMPLIANCE

Senator PROXMIRE. Chairman Wall, on page C-55 of your justifications, you have a table setting forth the workload for your Office of Community Investment. This table indicates a disturbing trend with regard to truth-in-lending compliance under the House Mortgage Disclosure Act, HMDA.

Last year's budget justification indicated that 15.2 percent of reporting institutions were not in compliance with truth-in-lending requirements at the end of 1986 and projected a noncompliance rate of 12.3 percent in 1987.

However, this year's justification indicated 27.3 percent of reporting institutions did not comply in 1987, over twice the projected, expected, predicted 1987 noncompliance rate.

Why is the noncompliance rate increasing so sharply in something which is as critical and vital as truth-in-lending?

Mr. WALL. In looking at the shift in numbers, we have gone back and recalculated. In 1986, the percentage should have been 23.3 percent. It was incorrectly calculated, and the 27.3 percent is the correct figure now. So that while it is increasing, it is a significantly smaller increase than the previous calculation would have revealed.

Senator PROXMIRE. Still, it is a very, very high level. This is one protection that I think that the Congress has achieved over the last 20 or 25 years which has been very much in the consumers' interest. It seems to me it is absolutely vital that we require that financial institutions tell the truth about the rate of interest, and they are required to by law.

Mr. WALL. I agree, Senator.

CEASE AND DESIST ORDERS

Senator PROXMIRE. This is an enormous lack of compliance. It seems to me when you have more than one-quarter in noncompliance, that is an astonishingly bad record, and it is increasing, as you say.

I notice there has been a sharp falloff in your Office of Enforcement's projected cease and desist orders. Last year's justifications estimated there would be 80 such orders in 1987 and 100 orders in 1988. In this year's justification, those estimates have fallen to 31 in 1987 and to 50 in 1988. Does that reduction reflect a change in your enforcement strategy?

Mr. WALL. No, it doesn't. It does reflect that we are getting fewer referrals from the examination force in the field, which suggests one of two things: That either they are not finding them or that we have peaked and that the referrals have been made and are being followed up on and that no new violations are being encountered to cause more referrals to be made.

FEDERAL ASSET DISPOSITION ASSOCIATION

Senator PROXMIRE. Last Wednesday's Washington Post carried a story outlining the contents of a House Banking Committee report that was highly critical of the Federal Asset Disposition Association [FADA]. Before I discuss the article, can you tell me why we use a separate off-budget organization to manage and sell the troubled loans and properties of failed and supervised savings and loan associations?

Mr. WALL. The previous Board created that entity back in, as I recall, in November 1985 as a way of trying to deal with the problems they felt at the time of not having the ability to hire enough people and at not having the ability to, because of restrictions, and not having the ability to hire qualified people which require higher salaries.

It was created as a way of having, also, a more private sector orientation toward the management and disposition of the assets.

Senator PROXMIRE. It is sort of an end run. It is off-budget. The article indicates that FADA is becoming insolvent, eating up the $25 million in seed money it received from FSLIC in 1985, as well as $70 million in management fees and other charges. Is that the case, and it so, why did it happen?

Mr. WALL. It happened because again, the previous Board created FADA and gave it a charge to prepare itself to be the property or asset manager for all of the FSLIC assets, so they were staffing up to what ultimately became almost 400 before we turned the agency around and are redirecting its management to a smaller level.

As I indicated earlier in my opening comments, the previous Board, it appears, had decided to give all or nearly all of the asset management responsibilities to FADA, and, of course, they anticipated that the more or less traditional approach of putting into receivership all of those assets, thus increasing and seeing a ballooning of that asset portfolio.

In both ways we have changed the approach. First we do not put or take into receivership all of the assets of a closed institution or an institution that we have dealt with; and second, we don't see that FADA ought to be, and nor will it be, the only resource that we have. We will use private sector contract services and we will also use the FSLIC staff.

Senator PROXMIRE. Since FADA is an off-budget agency, the committee has no way of monitoring its expenditures. We understand the salaries are as high as $250,000 a year paid to some of its employees; is that correct?

Mr. WALL. They were. That was the case of the CEO's salary up until March of this year.

Senator PROXMIRE. What is it now?

Mr. WALL. $150 ,000.

Senator PROXMIRE. One hundred fifty-thousand dollars. The House Banking Committee reported that FADA has added to the government's cost of handling failed S&L's by exposing the insurance fund to tax penalties, financial losses, and legal liability through failing to tile insurance claims on time. Is that correct? Do you agree with that?

Mr. WALL. I have not had an opportunity to go through all of the detail. The failing to file the insurance claims on time is one I am not familiar with yet.

NET DEPOSIT INFLOW

Senator PROXMIRE. As you indicated in your justifications, net deposit inflow, I am talking about deposits in the savings and loan, net deposit inflow fell to $30.9 billion in fiscal 1987 from $53.8 billion in 1986, a drop of almost 43 percent.

You projected an increase in fiscal 1988 to $50.9 billion in part because of increased consumer confidence and, as you pointed out properly, a lack of confidence in the stock market. We are now more than halfway through fiscal 1988. Is your $50.9 billion estimate holding up?

Mr. WALL. I will ask Jim Barth, our Chief Economist, to respond to that.

Senator PROXMIRE. Mr. Barth.

Mr. Barth. Estimates are always risky, but still, we are just a few months into the year and our data lags the actual reporting of the material. So it turns out that we seem to be, for the first couple of months, on the mark.

SUPERVISORY CASELOAD

Senator Proxmire. At last year's hearing, Chairman Wall, we were told that you had a supervisory caseload of 347 institutions including at least 191 FSLIC cases. Can you update those figures and give us some Rata on your current caseload, including FSLIC cases?

Mr. Wall. As I indicated earlier at year-end, the FSLIC caseload was 204. We will get you the precise figures, Senator, but it would be approximately 250 more; 204 for the FSLIC cases and then 250 plus in what we call the significant supervisory cases.

[The information follows:]

FSLIC Cases

The table below displays the requested information.

	Dec. 31, 1987	Apr. 1, 1988
Number of significant supervisory cases	483	486
Number of FSLIC problem cases[1]	(204)	(210)

[1] All FSLIC problem cases are included in the category "Significant supervisory cases."

BUILDING OPERATING EXPENSES

Senator Proxmire. Your building operating expenses were scheduled to increase from $4.8 million in 1987 to $11.0 million in 1988. That is a huge increase. It represents a jump of 130 percent in your building and operating expenses over 1987, more than twice last year's initial estimate for 1988. Why is it becoming so expensive to operate your buildings and why didn't you anticipate those expenses last year?

Mr. Wall. I will call on our Budget Officer to respond to that.

Mr. Brumfield. Basically, Mr. Chairman, the reason for the increase in 1988 was the leasing of a new building at 801 17th Street. Last year we didn't anticipate that, so it wasn't included in our estimate. So this year, almost $5 million can be accounted for in the increase based on the lease of 801 17th Street.

Senator Proxmire. So it is because of the new building that you have.

Mr. Brumfield. That we are leasing, that is correct.

PHONE INSTALLATION COSTS

Senator Proxmire. A new category of buildings mentioned did not show Up in last year's justifications is phone installation. I can understand why you didn't anticipated added costs in 1988 because of the new building lease, but why do you need to spend $1.25 million on phone installation costs in fiscal year 1989?

Mr. Brumfield. When we prepared our estimate, we were in the process of making not only mass moves and phone changes within our current building, but also moving people and installing phones in the

801 building. It will all depend on whether all these moves that we are doing will end in fiscal year 1988 or they will carry over to fiscal year 1989.

When we go through the process of the fiscal year 1990 budget cycle we will revisit this number. If it is high, we will reduce it to reflect what the correct number should be.

MAIL SERVICE EXPENSE

Senator PROXMIRE. The cost of your mail service operation is going through the root, from $68,000 in 1986 to $384,000 in 1987, to $840,000 in 1988, and $960,000 in 1989. That is increase of 1,300 percent in 4 years. What accounts for that dramatic cost increase?

Mr. BRUMFIELD. In 1986, we were doing basically all our mail operations internally. However, in 1987, we contracted out this service. It was determined, through a cost study that it would be more cost beneficial to the Bank Board to contract this, and so we went ahead and contracted out the mail operations. Now, in 1988 and 1989, we not only have mail operations in the old building, we also have mail operations in the 801 building, and that accounts for the extraordinarily large increase.

CLOSING REMARKS

Senator PROXMIRE. I am going to have to run to the floor for a vote. Chairman Wall, you have been certainly very responsive, and you have shown a tremendous grasp of a very complicated situation. We are lucky to have you in charge of what is a very, very difficult problem. I am going to adjourn as far as you are concerned.

When I come back, I have to vote, Mr. Whiteside, the head of the Neighborhood Reinvestment Corporation will testify. Thank you very, very much.

Mr. WALL. Thank you, Mr. Chairman.

SUBMITTED QUESTIONS

[The following questions were not asked at the hearing but were submitted to the Board for response for the record:]

QUESTIONS SUBMITTED BY SENATOR PROXMIRE

ANNUAL REPORT

Question: Last year's budget justifications indicated that you planned to spend $5,000 on your annual report in fiscal year 1987. Actual expenditures for the year were only $122. I assume that meant you didn't publish an annual report. Can you tell us why and also give us your current annual report publication schedule?

Answer: In FY 87, the publishing of the annual report was transferred to the Federal Home Loan Banks, which have their own separate budgets. Therefore, no cost was incurred by the Bank Board in FY 87. However, in FY 88, the responsibility for the printing of the annual report was returned to the Bank Board and, accordingly, we budgeted funds for its publication in both FYs 88 and 89.

SPECIAL STUDIES

Question: You spent only $12,000 on special studies in fiscal 1986 and $20,000 on such studies in fiscal year 1987 but plan to spend $200,000 in fiscal years 1988 and 1989. Can you tell us how much of your 1988 special studies budget you've spent to date and how you've spent the funds?

Answer: To date, the Board has spent no special studies monies. The special studies budget is one of the few truly discretionary line items we have in the Board budget. Because of the pay increase in January, we were told to absorb $400,000 of increased compensation and benefit costs. The Board currently plans to use some or all of the special studies funds budgeted to help offset the pay raise. Should money be available toward the end of FY 88, we will use the remaining dollars to conduct studies deemed necessary to augment our in-house expertise in special economic research.

Question: Why do you find it necessary to spend so much more on special studies in 1988 and 1989 than you have in the past?

Answer: The Board finds that there is a definite need for supplementing our economic research studies. Each year, the Board has set aside funds for this purpose. However, over the past few years, the Board has had to absorb all or part of the increases for pay raises in addition to, in FY 87, the increase resulting from the implementation of the new FERS retirement system. Since we have some discretion in regard to special studies funds, we do tend to use this particular line item in our budget to assist in absorbing non-funded and unanticipated increases (i.e. pay raises.) The Board fully intends to use all of the $200,000 allocated in its FY 89 budget to perform special studies unless unforeseen problems occur which require us to use the funds elsewhere.

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ADP PROGRAMMING COSTS

Question: You are requesting $1,084,000 for ADP costs in the coming fiscal year, an increase of $124,000 over your current estimate. Your programming costs seem to be growing by leaps and bounds. You estimated costs of $107,000 in your 1988 budget submission. However those 1988 programming costs have almost tripled over the last 12 months to $270,000 and you are requesting $365,000 in 1989. Why is programming becoming so expensive?

Answer: Programming costs have increased drastically with the conversion of the Board's old DEC 10 computer system to its new VAX system which was installed in FY 87. The need to revise and upgrade existing programs to be compatible with the VAX is very costly. In FY 87, when the change to the VAX originally occurred, all new program and systems development costs, with the concurrence of GAO, were capitalized rather than expensed. However, GAO also declared that once the systems were in place, any additional modifications would have to be expensed in the year they occurred. With the majority of programming currently affecting existing programs, it is necessary to increase our budget estimates in FY 88 and FY 89 to reflect these larger than anticipated expenses.

PRINTING AND REPRODUCTION

Question: I notice you overshot your initial 1988 printing and reproduction budget by $71,000 -- about 18 percent. Why did you have this unanticipated cost growth in your printing and reproduction budget?

Answer: The reasons for the $71,000 increase over our original FY 88 budget estimate of $400,000 for printing and reproduction are two fold. An additional $40,000 was needed for publication of the Board's Quarterly Report (Thrift Financial Report), and the remaining $31,000 was needed to offset rising costs from GPO. Since the majority of our printing work must be completed expeditiously, GPO considers these as "rush" jobs and charges us two to three times the normal cost for these jobs. This, in addition to the fact that GPO is generally higher than private vendors, inflates our costs even more. As long as the Joint Committee on Printing requires us to use GPO, rather than private vendors, costs will continue to escalate and this will be reflected in our budget estimates.

MICROGRAPHIC SERVICES

Question: Last year at this time you estimated you would be spending $56,000 on micrographic services in fiscal year 1988. That 1988 cost estimate has now climbed to $115,000. Can you tell us why your initial estimate was so wide of the mark?

Answer: The FY 88 micrographic services budget has doubled because of large unforeseen costs involved with microfilming of recent OGC legal records and documents, and accounting computer runs, documents and manual records. The Board is required to maintain these records on-site and due to lack of file space, the unanticipated microfilming is necessary in FY 88.

QUESTIONS SUBMITTED BY SENATOR BYRD

UNITED SAVINGS ASSOCIATION OF TEXAS (USAT)

The Federal Home Loan Bank Board regulates the United Financial Group, Inc. (UFGI), a bank holding company, and its wholly-owned subsidiary, the United Savings Association of Texas (USAT). The United Financial Group is owned in part by corporations controlled by Mr. Charles Hurwitz.

UFGI has reported that the Federal Home Loan Bank - Dallas is conducting an examination of USAT and that USAT has failed to meet several federal requirements. USAT has applied for capital "forbearance" with the FHLB - Dallas requesting that USAT not be required to comply with federal regulations relating to:

1. The level of USAT's capital
2. The level of brokered deposits
3. The level of loans to one borrower

Mr. Hurwitz and his companies are being investigated by the Subcommittee on Oversight and Investigations of the House Committee on Energy and Commerce. Subcommittee Chairman, John Dingell and Ranking Minority Member, Thomas Bliley have recently referred to the FTC and the SEC information on possible violations of Federal regulations by Mr. Hurwitz and some of his companies.

One of the Hurwitz companies, Maxxam, has recently purchased over 16 percent of KaiserTech's common stock and has options to purchase another 16 percent of Kaiser's voting stock. Kaiser and Maxxam are involved in proxy disputes relating to Maxxam's attempt to gain control of Kaiser's Board.

Question: In testimony before the Investigations and Oversight Subcommittee of the House Energy and Commerce Committee last October 5, Mr. Hurwitz stated that UFGI has an arbitrage account which is run by the same individual who also runs the arbitrage accounts of other Hurwitz companies including Maxxam. Does the Federal Home Loan Bank Board know whether UFGI is currently investing or has invested over the last year in KaiserTech stock?

Answer: Our information is obtained from United Financial Group, Inc. ("UFGI"), USAT's savings and loan holding company, specifically through Holding Company Reports filed with the FHLB-Dallas and through 10-Ks and 10-Qs filed with the Securities and Exchange Commission. Based on our information, neither UFGI nor USAT currently own any KaiserTech stock. However, Mr. Barry Munitz is a director of both USAT and Maxxam, and he also sits on the board of Kaiser.

Question: If the FHLBB grants forbearance to UFGI on the brokered deposits requirements, could that directly or indirectly aid Mr. Hurwitz or his companies in their attempt to acquire control of Kaiser?

Answer: The brokered deposit regulation requires the following:

Except as noted below, no insured institution which does not meet or exceed its minimum net worth requirement may commit to accept brokered deposits if the amount of those deposits, together with all brokered deposits then outstanding, would exceed five (5) percent of its total deposits.

However, an insured institution which does not meet the minimum net worth requirement may apply to the Principal Supervisory Agent for a waiver of the five percent limitation. The waiver may be granted for a period not to exceed one year, upon finding that the institution may suffer from a shortage of liquidity or a dissipation of assets if it were not able to accept additional brokered deposits, or if it is determined that other methods of raising funds would pose greater risk of adverse effects on the institution or would increase costs to FSLIC or to any Federal Home Loan Bank. In addition, the institution must adopt a reasonable plan of action which is designed to reduce the institution's level of brokered deposits to five percent of total deposits or less within two years.

As indicated, we expect any additional brokered deposits raised only in order to meet liquidity needs and to provide an alternative source of funds. They should also be a less costly source of funds than what could be raised in the retail markets or by a national money desk. It should be noted that a requested forbearance or waiver to allow additional brokered deposits would be granted to USAT rather than to UFGI.

Question: If the FHLB grants forbearance on the borrower requirements to UFGI, would that directly or indirectly aid Mr. Hurwitz or his companies in their attempt to acquire control of Kaiser?

Answer: FHLB-Dallas will not be granting any forbearances to USAT regarding the loans to one borrower requirements.

Question: In its 10K, UFGI states that when UFGI became a holding company it agreed to maintain USAT's capital above the minimum FSLIC requirements. However, UFGI does not now have "sufficient assets to contribute to maintain USAT above its minimum capital requirements." In light of Mr. Hurwitz's chairmanship and part ownership of UFGI, would the granting of forbearance by FHLB on the capital requirements for UFGI assist Mr. Hurwitz either directly or indirectly in his attempt to gain control of Kaiser?

Answer: If FHLB-Dallas granted capital forbearance to USAT, it would not be reducing the institution's capital level required by the Insurance Regulations. Under the terms of the capital forbearance agreement, the FHLB-Dallas and FSLIC would not place USAT in a receivership or take other supervisory action, based on USAT's failure to meet required minimum net worth. However, capital forbearance would extend only to USAT. UFGI would retain the responsibility to maintain USAT's capital at the level required by the Insurance Regulations. Therefore, the granting of capital forbearance to USAT would not assist Mr. Hurwitz either directly or indirectly in his attempt to gain control of Kaiser. In the processing of USAT's capital forbearance application, the FHLB-Dallas will assess the financial ability of UFGI to maintain USAT's minimum capital.

Question: Would the granting of forbearance on any or all of UFGI's requests have the effect of putting the Federal government in the position of encouraging or assisting this Savings and Loan in its arbitrage or takeover activities?

Answer: The granting of forbearance or waivers requested by USAT or UFGI would not have the effect of putting the Federal Home Loan Bank or FSLIC in the position of assisting the institution in arbitrage or takeover activities, because approval is based on various regulatory guidelines which emphasize safety and soundness and the enhancement of capital.

Question: When did the FHLB first notify UFGI or USAT that it failed to meet its minimum capital requirements? When did the FHLB notify USAT or UFGI that it exceeded Federal requirements for brokered deposits?

Answer: FHLB-Dallas notified USAT's Board of Directors that it failed to meet its minimum net worth requirements and exceeded its brokered deposit limitations at the March 29, 1988 exit conference, at the conclusion of the most recent Federal examination of USAT.

Question: Is the FHLB's review of USAT and UFGI being delayed or hampered by a lack of funds or by other priorities for the use of funds? If so, what recommendations would you have for Congress to help alleviate this situation?

Answer: Our review of USAT and UFGI has not been delayed or hampered by a lack of funds or by other priorities for the use of funds.

NEIGHBORHOOD REINVESTMENT CORPORATION

STATEMENT OF WILLIAM A. WHITESIDE, EXECUTIVE DIRECTOR

ACCOMPANIED BY GEORGE KNIGHT, DEPUTY EXECUTIVE DIRECTOR/TREASURER

BUDGET REQUEST

Senator PROXMIRE. Our next witness will be Mr. William Whiteside, Executive Director of the Neighborhood Reinvestment Corporation.

Mr. Whiteside, it is good to see you once again. You are my favorite bureaucrat, maybe the only bureaucrat that I approve of.

The Corporation is requesting a fiscal year 1989 budget or $19 million, a 2-percent increase over their current budget. This is the Corporation's 10th anniversary. It has done a fine job. I note your budget has decreased in real dollars since 1985 by 15 percent, but the number of Neighborhood Housing Services organizations has increased by 50 percent. This is quite an impressive accomplishment.

SUMMARY OF STATEMENT

You may go ahead and summarize your statement with the understanding that your prepared statement will be printed in the hearing record in its entirety.

Mr. WHITESIDE. Thank you, Mr. Chairman. It is a pleasure to be appearing before you again.

You noted the degree to which we have become leaner and meaner than we really intended to with the 50-percent growth in workload, while encountering a 15-percent real decrease in funds available. We continue to adapt our work to meet the needs we find in the nation's neighborhoods within the funding we have available. The $18,720,000 we have available to us in the current fiscal year is 1.5 percent below our fiscal year 1987 funding.

PRIORITY SHIFT

We are trying to maximize the impact of these funds as we meet the revitalization needs of over 240 neighborhoods. We are shifting our priorities somewhat in 1988 and intend to shift them a bit further in 1989 to deal with an emerging problem. I reported to you last year on the steadily increasing displacement of low-income renters from their housing, and we had a study in process at that time—"At Risk of Loss: The Endangered Future of Lower Income Rental Resources." It wasn't complete, but I pointed out that there were diverging trends with a growing number of lower income families and a shrinking number of income units they can afford.

Second, as a result of tax reform, we expected rents to increase; and third, the option for owners of growing numbers of federally assisted units was likely to take some of them out of the marketplace during the next 20 years or so.

DECREASED MULTIFAMILY HOUSING STARTS

Our projection of a sharply reduced incentive for investment in rental housing altogether, and especially in low-income rental housing, is beginning to assume a quantifiable shape as over the last 4 months the Commerce Department has reported a sharp decrease in seasonally-adjusted multifamily housing starts.

I might suggest that as difficult as tax reform's impact is in the short term, especially for low-income housing, I think for rental housing in the long term in this country, we might see greater attention to maintenance and upkeep of apartments as more investors are in for the long haul and are investing for longer term returns rather than the short-term returns of accelerated depreciation.

NEEDS ASSESSMENT OF LOCAL PROGRAMS

Appendix B of my statement, the last two pages, are just a very quick excerpt from a needs assessment of the 138 local programs around the country on what they saw as the needs in their neighborhoods. As you see, they need tools and low-cost capital to tackle low-income rental needs, and in some economies, low-income home ownership needs, commercial revitalization, economic development, housing and social services for the homeless, substandard or vacant housing, and mortgage unavailability.

These findings are causing us to prioritize more of our effort on the rental side of the neighborhoods. Many of our neighborhoods are about 50-percent home ownership. The other side of that coin is they are about 50-percent rental. As these rental housing resources become an endangered species, we are trying to assist the Neighborhood Housing Services, and apartment improvement programs and mutual housing associations, in preserving those resources.

We see mutual housing associations as an extremely promising, nonprofit ownership vehicle for maintaining these resources, but we see, also, that NHS's are going to need increasing amounts of low-cost capital to deal with the one- to 12-family rental units in their neighborhoods.

As you may know, about 50 percent of our rental housing stock in this country is in buildings of less than 20 units. In a great many NHS neighborhoods, those 2-, 3-, 4-, 5-, 6-, 10- and 12-unit buildings are where the major problem is, and resources are very hard to come by in these days to tackle them.

MUTUAL HOUSING MODEL

Going back to the mutual housing model just for a moment, I would like to say that we are expecting, by the end of calendar year 1988, to have mutual housing associations operational in eight cities in the United States, which is moving from a demonstration stage to what we might call a pilot replication stage.

We are bringing these organized public-private partnerships to a state of operational readiness. We are finding local low-cost capital resources for the beginning of construction, but longer term, the potential great expansion of their operations will depend on future, low-cost capital resources. One very promising development has been in Connecticut, where the state has appropriated $100 million for purposes including capital grants to mutual housing associations.

As an example of how this initiative by the state of Connecticut can become an important resource, in Stamford the city government has appropriated $4 million to buy a city block or deteriorated housing for the NHS to turn into a mutual housing association complex, and the state has set aside $10 million to contribute toward the cost of development.

SECONDARY MARKET FOR LOCAL GOVERNMENT LOANS

A further resource is also coming on stream. Again, it is a small beginning for what can become an important flow in the future. This is the development of a secondary market for local government loans. In effect, it enables local government to use some of its community development block grant resources twice. Many have used some CDBG funds already for low-interest loans. By selling these loans in a secondary market, they are able to make funds available again, albeit with some discount, for community development use, including substantial assistance to NHS neighborhoods.

We will be celebrating this June the first sales in a secondary market which has been put together by Neighborhood Housing Services of America and the Allstate Insurance Co. toward an eventual $10 million commitment.We are looking to this new secondary market vehicle being a future significant resource for low-cost capital in the future.

You mentioned, Mr. Chairman, that this year marks the 10th anniversary of the Neighborhood Reinvestment Corporation, and we are very pleased to mention your important role, along with Senator Garn, as the initial sponsor of the legislation that made that possible. We will be celebrating this 10th anniversary with the launching of a national multimedia advertising campaign, which has recently gone through a test in five cities.

ACCOMPLISHMENTS CITED

Just to summarize the work we have accomplished in those 10 years as a government-supported Corporation, this pioneer secondary market has been created, as well as the initial one for NHS loans; have assisted in the revitalization of over 300 neighborhoods across America, in which almost 3 million people reside; and have generated over $4 billion in investment, utilizing a total federal expenditure of about $154 million.

We have introduced and have begun replicating the Western European housing model—the Mutual Housing Association—in the United States. Through the successful work or the local partnership programs, we have seen over 72,000 dwelling units directly rehabilitated, including over 14,000 multifamily units; have seen approximately 600 units newly constructed on scattered site vacant lots; have seen 400 vacant properties purchased, rehabilitated, and sold to low- and moderate-income owners; have seen 2,500 tenants converted to homeowners; have seen the local programs make more than $138 million in low-interest loans to thousands of poor or nonbankable residents.

I might add that a recent survey of NHS lending indicated that 50 percent of their loans were made to very low-income borrowers; 30 percent to low-income borrowers, and only 20 percent to moderate income and higher income borrowers.

[The statement follows:]

STATEMENT OF WILLIAM A. WHITESIDE

Mr. Chairman, and members of the Committee, I appreciate the opportunity to appear once again before you and report on the activities of the Neighborhood Reinvestment Corporation.

First, I would like to thank you for your confidence in approving an initial FY 1988 funding level of $19,500,000 for Neighborhood Reinvestment. Of course, in meeting the final budget parameters last year, this amount was necessarily reduced. However, as a result of your earlier mark, our final FY 1988 budget figure of $18,720,000 represented a decrease of only 1.5% below FY 1987.

We are attempting to maximize the impact of these funds, meeting the revitalization needs of over 240 neighborhoods to the greatest feasible extent. However, the figure on page 16 of the budget justification graphically illustrates the real dollar challenge which is involved in meeting training and technical services needs of the national network of Neighborhood Housing Services (NHSs), Apartment Improvement Programs (AIPs) and Mutual Housing Associations, with an increase of 50% between 1982 and 1989 in neighborhoods to be served, and real dollar resources down 15% in the same time period.

Appendix A of this testimony shows the demand in our current round of applications for grants and development assistance for additional programmatic tools. In FY 1988, we will be able to respond to local program interest in only 21% of the Housing Development Strategy requests, 38% of the Neighborhood Economic Development and Commercial Revitalization requests, 32% of the Rental Housing Strategy requests, and less than 25% of the Mutual Housing Association requests.

Last year, I reported to you on a steadily increasing displacement of lower income renters due to a combination of three factors: 1) diverging trends which show a growing number of lower income families and declining number of low-rent housing units; 2) rent increases resulting from the elimination of tax shelters; and 3) an option for owners of growing numbers of federally-assisted housing units to refinance and rent to higher income renters.

The projection of a sharply reduced incentive, after tax reform, to invest in rental housing leading to further tightening of rental markets began to assume quantifiable shape this year, as the Commerce Department reported a sharp drop in seasonally adjusted multifamily housing starts.

A needs assessment was conducted among our 138 neighborhood programs in December 1987. As shown in the sampling from a few smaller cities' needs assessments at Appendix B, programs need tools and low-cost capital to tackle low-income rental (and in some economies, homeownership) needs, commercial revitalization, economic development, housing and social services for the homeless, substandard and vacant housing, and mortgage unavailability.

These findings have encouraged us to further prioritize our expenditures in FY 1988, and in our plans for FY 1989, to preserve and produce affordable low-income rental housing. The Mutual Housing Association is the most promising model as an ownership vehicle, but there is also a tremendous need in NHS neighborhoods for flexible subsidy resources to assist in the rehabilitation of one-to-12 unit rental properties.

The self-help approach of the Mutual Housing Association looks as though it is the most viable and cost-effective way of producing and operating significant numbers of multifamily units for lower income households at minimum long-term costs in public subsidies. A study is being undertaken of Mutual Housing Associations' progress to document the potential that this model offers of meeting the needs of the lower income rental market, as well as satisfying in some ways the dream of homeownership. The study will document costs and compare them with other assisted housing modesl, and evaluate how active involvement of Association members in the development and management of the Association, combined with security of tenure, may create a psychological "pride of ownership" in the properties of the Association. Also, it will focus on how this factor may contribute to ensuring long-term good maintenance.

By the end of 1988, Mutual Housing Associations will be active producers of housing in the following cities: Baltimore, Maryland; The Lower East Side of Manhattan, New York City; Austin, Texas; Hartford, Connecticut; Ithaca, New York; Sacramento, California; South Bend, Indiana; and Stamford, Connecticut. In FY 1989, we plan to add at least two additional Mutual Housing Associations and may develop others, trading off against initiating new NHS developments.

All of the Mutual Housing Association developments are designed to organize the partnership and bring the organization to operational readiness. In each case there are some local, low-cost capital resources; however, the future substantial production of which they are capable will depend upon still-to-be-developed future, low-cost capital resources. The most promising development in this regard has been in Connecticut, where last year the State passed legislation providing $100 million for low-income housing production, including capital grants available to Mutual Housing Associations in Connecticut.

Last year, I reported on one promising source of such low-cost capital, wherein the Allstate Insurance Company had volunteered to assist Neighborhood Housing Services of America and Neighborhood Reinvestment in developing a secondary market for local government rehabilitation loans, based on the secondary market mechanism used by the NHS revolving loan funds. Also, Allstate agreed to purchase the first $10 million in notes backed by local government loans with the condition that some or all of the proceeds be available to the local NHS in each community.

I am pleased to report to you that such a local government secondary market model has been designed and the legal documents developed, and the first closing should take place in 30 to 60 days. Two cities and one urban county are involved in this first, unsubsidized sale of loans. The NHSs located in these communities will be receiving approximately 50% of the proceeds generated from this first sale for use in major projects in their neighborhoods.

This year marks the 10th Anniversary of the Neighborhood Reinvestment Corporation. Coinciding with this celebration will be the launching of a national multimedia Advertising Council campaign featuring dramatic public service announcements on television, radio and in print media identifying NHSs, AIPs and Mutual Housing Associations as part of the NeighborWorks network. Already tested in five cities, this campaign promises to be a vital tool in assisting the local programs in achieving broader recognition and in strengthening their base of private sector and individual contributions. Incidentally, in increasing public awareness of declining neighborhoods and affordability problems, all rehabilitation efforts by local governments and local nonprofit organizations will be aided.

In ten years as a congressionally-chartered corporation, Neighborhood Reinvestment has made great strides. We have assisted in the development of a pioneer secondary market designed specifically for loans that do not meet private underwriting criteria; assisted in the revitalization of over 350 neighborhoods across America in which almost three million people reside; generated over $4 billion in spin-off reinvestment utilizing a total of $153.7 million in appropriated funds; and have been instrumental in introducing and replicating a successful Western European housing model (Mutual Housing Associations) in the United States.

By the end of 1986, through a successful partnership, the corporation and the NeighborWorks network had successfully:

-- Directly rehabilitated 58,000 units of 1-4 family homes, and 14,000 multifamily units.

-- Completed 586 units of new construction of scattered-site, vacant lots.

-- Purchased, rehabilitated and sold 400 vacant properties.

-- Converted over 2,500 tenants to homeowners.

-- Made more than $138 million in low-interest home repair loans to thousands of poor or "non-bankable" residents in NHS neigborhoods.

Also, as a result of the NeighborWorks network:

-- Local governments had invested $602 million in capital improvements in NHS neighborhoods.

-- Due to improved homeowner and lender confidence, a total of $1.6 billion in conventional loans had been made in NHS neighborhoods.

The Corporation's FY 1989 funding request is $19,094,000, which represents an increase of 2% from the FY 1988 level of $18,720,000.

Mr. Chairman, members of the Committee, thank you for the opportunity to present this statement. I will be pleased to answer any questions on our work and on our budget request as outlined in the previously submitted budget justification.

REQUESTS FOR PROGRAMMATIC SUPPLEMENTS

District/ Number of NHSs	Commercial/ Economic Development	Housing Development Strategies	Rental/ Multi-Family	Mutual Housing Assoc's.	Neighborhood Preservation Projects	Other Responses	TOTAL
New England - 7	3	4	3	4	4	3	21
New York - 7		3	4	2			9
Mid Atlantic - 6	1	3	1		3		8
Great Lakes - 8	2	6	3	1	4	2	18
Southern - 11		4	3	2	3	3	15
North Central - 16	8	9	7	3	10	8	45
Great Plains - 7	4	6	2	2	3	3	20
Rocky Mountain - 6	4	2	1	1	2	2	12
Pacific - 5	2	2	1	1			6
TOTALS	24	39	25	16	29	21	154

NHS	DESCRIPTION OF OTHER RESPONSES
Aurora NHS	To revitalize the commercial strip by attracting small businesses to the area.
NHS of Beloit	Youth strategies which focus on education and employment opportunities.
Boise NHS	To develop strategies that respond to the needs of the homeless.
Burton NHS	Provide ten homes for female heads of household with children by utlizing a grant from Neighborhood Reinvestment in tandem with CDBG funds.
Charlotte NHS	Increase homeownership in neighborhood from 45% to 60%.
Chicago NHS (Central)	To develop a foreclosure counseling component of the NHS.
	Explore and expand on the concept of "hospital" neighborhood partnerships.
Cincinnati NHS	Assist in the conversion of rental units to owner-occupied units.
NHS of Dimmit County	Create jobs for the local economy which is currently experiencing a 19.7% unemployment rate.
Durham NHS	To promote opportunities and funding for low-income residents to become homeowners.
Five Points South AIP (Alabama)	To address the severe problem of child abuse.
Hartford NHS	Business development strategies.

NHS	DESCRIPTION OF OTHER RESPONSES
NHS of Lafayette (LA)	To develop a homeownership counseling component of the NHS.
NHS of Milwaukee	Create mechanisms to train and place unemployed/underemployed neighborhood residents in higher paying jobs.
Pontiac NHS	New construction, infill housing strategy on vacant land donated by the city.
Quincy NHS (MA)	Services to youth.
NHS of Richland Center	Computerization of program operations.
Roseland NHS of Chicago	Educational strategy for youth.
Santa Fe NHS	To construct new, affordable housing for low-income families which, in turn, will stimulate the local economy and enable "working people" to remain in the city.
Springfield NHS (MA)	To offer resident leadership development seminars to neighborhood residents so that they are prepared to accept self-reliance.
NHS of Tulsa	Develop a joint project with the city to address the homeless and community youth problems the neighborhood is facing.
Westside NHS of San Antonio	Enhance a grant from the Presbyterian Church USA.

SAMPLING

SURVEY OF NEIGHBORHOODS NEEDS

Date: December

Contact Person: ____________

Name of Organization: NHS of Stamford, Richmond NHS, NHS of Trenton, NHS of Gainesville, NHS of Davenport

INSTRUCTIONS: Please think about the needs affecting your neighborhood and provide a brief description of the problems and your vision of solutions and resources to address them (use additional sheets of paper as needed).

Give a brief description of the needs of your neighborhood Briefly describe each issue affecting the neighborhood, (such as: housing, economics, environmental, social, etc.)	What is the dimension of the problem? (such as number of people, units, etc.)	Do you envision your organization working on the problem?		What do you see as some ideal solutions or strategies to address this particular issue? Please offer a brief description.	Estimate the resources needed		What do you envision as a planning time frame to begin addressing the problem?		
		YES	NO		☐ resources identified	☐ resources not identified	this year	1 to 3 years	over 3 years
Increase supply of low-cost housing	Extremely high market means no housing for lower income	X		Mutual housing development (and rental)	City-4 mill. St.-10 mill. NR	Private companies	75-100 units		
Affordable housing for first time homebuyers	Over 50% of the neighborhood residents are renters	X		1. New construction of subdivision w/ affordable sale price and down payment 2. Additional staff construction monitors	255,000 0	560,000 25,000	X X		
				3. Infill project and purchase rehab	80,000	100,000	X		
Rental Rehab Program	Deterioration of rental units	X		1. Create revolving loan fund for rental rehab 2. Educate landlords & market program	50,000 0	150,000 15,000		X X	
Affordable rental housing	2 dominant markets section 8 (HUD) units & high income units. No middle			Construct and/or purchase rental units	80,000	270,000	X		
	ground for moderate income								
Vacant boarded houses	60 units	X		Rehab for first time homeowners	2,5000,000	500,000	1988 10%	4C%	50%
First mortgages funds needed	60 units	X		Utilize NJHMFA, banks, and NHSA	8,000	8,000	20%	40%	40%
Crack houses - sale and use of drugs	10 houses	X		Lobby for harder laws	3,000	2,000	50%	50%	
Deteriorated homes	200 homes	X		Provide RLF for loans	500,000	250,000	10%	40%	50%
Economic development, specifically targeted to small, minority owned commercial strips	Approx. 38 area businesses	X		Becoming a community development corporation to enable funding leverage through NHS		roughly 250,000 to do it all	X		
Continuing affordable housing and homeownership opportunites	Minimum of 10% of housing units (approx. 200) still to be addressed	X		Implementation of a first mortgage program targeted to low income households	450,000		X		
Continuing need for capital improvements through City	Drainage improvements and city water to one third of area	X		Education of residents and city officials as to need and approach		250,000 drainage alone	X	X	
Soft real estate market	n NHS and adjacent areas	X		Homeownership promotion, incentives to buy	1 million loan pool				yes-we need to star

SURVEY OF NEIGHBORHOODS NEEDS

Name of Organization: NHS of Great Falls, Boise NHS, Ithaca NHS

Date: December

Contact Person:

INSTRUCTIONS: Please think about the needs affecting your neighborhood and provide a brief description of the problems and your vision of solutions and resources to address them (use additional sheets of paper as needed).

Give a brief description of the needs of your neighborhood Briefly describe each issue affecting the neighborhood, such as: housing, economics, environmental, social, etc.)	What is the dimension of the problem? (such as number of people, units, etc.)	Do you envision your organization working on the problem?		What do you see as some ideal solutions or strategies to address this paticular issue? Please offer a brief description.	Estimate the resources needed		What do you envision as a planning time frame to begin addressing the problem?		
		YES	NO		☐ resources identified	☐ resources not identified	this year	1 to 3 years	over 3 years
Low income multi-family modified ownership housing	100 living units	X		Intrusion zoning strategy, Mutual Housing Association projects		5,500,000		X	
Low income single-family detached ownership housing	20 living units	X		Vacant lot infill housing Neighborhood stabilization	1,100,000		X		
Deteriorated Central Business District; retail sales leakage, deteriorating tax base	Heart of neighborhood, 30 city blocks, 120 acres	X		Market study. CBD Development Plan Infill retail plan. BID Tax increment financing	75,000 30,000 250,000	100,000	X X	X	
Deferred maintenance of public and private infrastructure	Heart of neighborhood, 30 city blocks, 120 acres	X		Major downtown revitalization project.		8,000,000		X	
Lack of emergency housing for homeless, intact families	Waiting lists, 1 yr. long	X		A facility	750,000			X	
Lack of transitional housing for homeless, intact families	Waiting lists, 1 yr. long	X		More units	300,000		X		
Lack of temporary housing for homeless, intact families	Waiting lists, 3-6 month long	X		More units	100,000 rent money			X	
Need for revolving loan funds for Veterans Park neighborhood specifically	Waiting list for RLF loans	X		More money to revitalize existing housing stock	1,000,000		X		
Need to revitalize existing commercial gateway strip that runs thru Vet. Park	State Street a mess!	X		$ Economic development	1,000,000		Planning	Implementation	
Need for direct social service intervention to homeless, such as utilities, travel, etc	Homeless applicants are penniless!	X		Money for emergency day-to-day necessities	100,000		X		
Emergency rent, child care $ & clothes to pursue jobs		X		Money for emergency day-to-day necessities			X		
Rising housing costs are severely affecting lower income residents	Housing sale prices have risen almost 15% for 2 consecutive years.	X		Developing long-term affordable housing strategies such as MHAs, coops and land trusts.	250,000/ year	250,000/ year	X	X	X
Serious code and life-safety problem exist in housing owned by lower income residents	Approx. 1/3 of the housing stock is still substandard	X		Continued focus on repair assistance to low-income residents; expansion of services to other needy residents	250,000/ year	250,000/ year	X	X	

FORECLOSURE STRATEGY

Senator PROXMIRE. Thank you very much. I think that is a superb summary. The tables will be printed in full in the record.

Let me ask you this. In last year's hearing, we discussed foreclosure intervention strategies. In view of the enormous debt we have in this country, particularly household debt that would affect you, it is over $3 trillion now. It is bigger than ever; savings are lower than they have been.

I think the foreclosure strategy is one we should be prepared for. If there is a recession, there is likely to be record foreclosures. You were exploring whether or not you could help NHS's get into the area of foreclosure intervention on conventional loans. What kind of progress are you making?

Mr. WHITESIDE. We have continued that exploration. We have found a model that seems to be operating successfully in several cities. It is operated by an organization called HOPE out of Allentown, Pa. We are beginning exploratory talks with them to see if we can do a joint venture utilizing their experience to bring this tool to NHS neighborhoods.

They have a technique of providing FHA, VA and conventional loan counseling for homeowners who are under foreclosure with most of the costs paid by HUD or VA or the secondary market or mortgage insurers involved.

It seems like a very sensible model, and if we can utilize that without having to reinvent the wheel, we will do so. You mentioned the potential of foreclosures if there should be a recession. We find that in a large number of NHS neighborhoods that the rate of foreclosures now are moving at really a faster rate than they can rehabilitate and revitalize homes.

Senator PROXMIRE. These are supposed to be good times. We have a minimum amount of unemployment. It is down to 5 .5 percent; we haven't had a recession for 5½ years. As I say, debt is so high that we can expect a recession sometime in the near future. So I can see it is going to be a very difficult problem.

Mr. WHITESIDE. It is a necessary tool.

SALARIES AND EXPENSES BUDGET

Senator PROXMIRE. You are requesting a continuation of your current $9,375,000 salaries and expenses budget in fiscal 1989. Your justifications indicate that at this level of funding, you will be unable to fill several positions which will be vacated in the coming year.

The total number of full-time employees will decrease from 215 to 209, which will weaken your ability to develop your new neighborhood programs and provide assistance to existing ones, according to your justifications.

How much did you request from the Office of Management and Budget for salaries and expenses?

Mr. WHITESIDE. May I ask Mr. Knight to answer that question?

Senator PROXMIRE. Mr. Knight, go ahead.

Mr. KNIGHT. Senator, we didn't make a specific request for salaries and budgets. We submitted a four-level budget to OMB. The levels were basically a continuation of current services and at an enhanced level and at an intermediate level. It was not broken out by line item.

Senator PROXMIRE. When you submitted the level for continued services at the present level, was that $9,375,000 for salaries and expenses?

Mr. KNIGHT. It was at a budget level of $21,768,000, so behind that number the salary estimate was a little bit higher than the $9,375,000.

Senator PROXMIRE. So they cut you below the level necessary to maintain your present services? That is why you have the cut in numbers of employees from 215 to 209?

Mr. KNIGHT. To maintain the same salary level and to deal with increases in costs, personnel equivalents must drop.

NEIGHBORWORKS ADVERTISING CAMPAIGN

Senator PROXMIRE. In last year's hearings, Mr. Whiteside, you told us your Neighborworks advertising campaign was expected to expand to 137 cities in the fall. That is a very fine program.

However, this year's prepared statement implies you have not gotten beyond the five test sites you have started with last spring. Can you tell us what caused the delay?

Mr. WHITESIDE. Yes. It is a rather involved process, working with volunteer programs and volunteer agencies. We have completed the test. We have made our report to the campaign committee of the Advertising Council and they have made recommendations for some improvements in the campaign material.

They are selecting a new agency for us and we expect to be working with the new agency on the improved material very shortly. So my estimate of "the fall" is still an accurate one, except we are talking about the fall of this year.

Senator PROXMIRE. So you are still planning to expand the program to 137 cities only in the fall of this year.

Mr. WHITESIDE. Actually, Senator, we plan to expand it nationally rather than just the 137 cities this fall.

Senator PROXMIRE. To date, what concrete benefits has the five-city campaign produced?

Mr. WHITESIDE. In the five cities, it has produced immense benefits. Let me just give you one example. In the city of Phoenix, their visibility was heightened enough by this campaign that the board was encouraged to expand to a second neighborhood. They have taken on one of the most difficult neighborhoods in Phoenix near the downtown, a very low-income neighborhood with a very high degree of rental occupancy, and they are very quick to say that without the visibility and fund raising help that they were given by the ad council campaign test for 6 months that they wouldn't have been able to take on that neighborhood.

NATIONAL LEADERSHIP CONFERENCE

Senator PROXMIRE. You are planning to spend $400,000 on and NHS Apartment Improvement Program [AIP] grants in fiscal 1989 an 11.1-percent decrease below the current budget, and $298,000 on NHS special operating grants, a 13.6-percent decrease below the current level. These cuts are being made to allow you to spend 27 percent more on training and educational grants for a fiscal 1989 national leadership conference.

Why do you think it is more important to have a national conference than to maintain the current level of NHS, AIP, and special operating grants?

Mr. WHITESIDE. I think it is a bit more complex than that. If I could ask Mr. Knight to comment?

Mr. KNIGHT. You will note that in prior years, we had the Apartment Improvement Program as a separate line item. This year, we have Neighborhood Housing Services and the Apartment Improvement Program in one combined line. We found that we have been able to successfully raise the revolving loan funds locally, and so our average grant size has gone down from approximately $50,000 to $35,000.

The conference offers an unparalleled opportunity to pull together four individuals from each NHS from around the country for training in a concentrated manner that we just couldn't achieve in any other way.

Senator PROXMIRE. Couldn't you fund the 1989 National Leadership Conference through reductions in other parts of your current $542,000 training and educational grants program?

Mr. WHITESIDE. It is hard to say just where it is drawn from. Partly, that funding is drawn from the reduction in staff. In other words, we have had a number of lines reduced in various parts of the budget. It is hard to say exactly which was traded off with that. We did want to have that continuing educational resource, and we have taken the reductions. As you see, although the percentages sound large, we are talking about $50,000 in one case and $47,000 in the other case in terms of the reductions.

We are on a different decimal point scale than your previous witnesses, where they were talking in billions and we are talking in thousands.

Senator PROXMIRE. Mr. Whiteside, I want to thank you very, very much. I don't know any other agency or any other head of an agency that does more for less money than you have done. It is a real inspiration to those of us who want to hold down government spending and at the same time, provide the services that our country expects and needs. Thank you very much.

Mr. WHITESIDE. Thank you very much.

PREPARED STATEMENT AND SUBMITTED QUESTIONS

Senator D'Amato was unable to be with us today and has requested that his statement be printed in the hearing record.

[The statement and following questions were not asked at the hearing but were submitted to the Corporation for response for the record:]

STATEMENT OF SENATOR D'AMATO

The Neighborhood Reinvestment Corporation was created in 1978 as a support system providing technical support and training for the Neighborhood Housing Services. The Neighborhood Housing Services are at work in 239 neighborhoods in 137 cities around the country. Over 2.4 million Americans—most of whom are elderly and minorities—are served by this program. The Neighborhood Housing Services has produced billions of dollars in reinvestment in neighborhoods. Specifically, NHS works with a neighborhood to plan a neighborhood revitalization strategy. By providing counseling, support, and access to a secondary market for revolving loan fund loans of local programs, NHS is able to help a community become economically vibrant.

In fiscal year 1988, the Neighborhood Reinvestment Corporation received $18.7 million in appropriations. The Corporation is requesting an increase of about $300,000 to receive an appropriation of $19.09 million for fiscal year 1989. I have always supported community revitalization activities and will do everything possible to continue to support the Neighborhood Reinvestment Corporation.

QUESTIONS SUBMITTED BY SENATOR PROXMIRE

Neighborhoods Served by Mutual Housing Associations

Question: The Mutual Housing Association is a partnership approach in which members share in the governance of the Association which owns the units they rent. You say in your prepared statement that this approach appears to be "the most viable and cost-effective way of producing and operating significant numbers of multifamily units for lower income households at minimum long-term costs in public subsidies." As you indicate in your opening statement, you expect eight Mutual Housing Associations to be active producers of housing by the end of 1988, but I d like to know how many neighborhoods are served today by a Mutual Housing Association?

Answer: To date Mutual Housing Associations are serving two communities. They are the Govans neighborhood of Baltimore, Maryland and the Lower East Side of Manhattan, New York City.

Network of Mutual Housing Associations

Question: Do you still expect to have a viable Mutual Housing Association network in place by the early 1990's, (as you stated in last year's House hearing record) in order to address the crisis in lower income rental housing?

Answer: The beginnings of such a network are taking shape at our current rate of three or four Mutual Housing Association developments started each year. Naturally, to make a significant impact on the problem, a faster rate of build-up would be desirable.

Mutual Housing Association Study

Question: You say in your opening statement that a study is being undertaken of the progress of Mutual Housing Associations. This study will document costs and compare them with other assisted housing models. When do you expect the study to be completed?

Answer: We expect this study to be completed in July of this year. In addition to documenting costs and comparing them with other assisted housing models, the study will evaluate how active involvement of Association members in the development and management of the Association, combined with security of tenure, may create a psychological "pride of ownership" in the properties of the Association. Also, it will focus on how this factor may contribute to ensuring long-term good maintenance.

Foreclosure Intervention Strategy

Question: On April 9th, you testified before the House Veterans Committee on the Veterans Administration Home Loan Guaranty program as it related to the use of VA loans in the sale of properties; problems related to VA loans experiencing delinquency and foreclosure; and difficulties in turning foreclosed VA properties into neighborhood assets. You said in your testimony that the Neighborhood Reinvestment Corporation would like to enter into cooperative pilot efforts with the VA to look for ways to address these areas of concern. Are you taking any steps to explore the possibility of cooperative pilot programs?

Answer: Yes, we are opening dialogue with the Veterans Administration. We are also gathering information from certain NHSs with high foreclosures to determine the extent of the Veterans Administration foreclosures in NHS neighborhoods.

Foreclosed Properties as Neighborhood Assets

Question: Has the Veterans Administration shown any interest in entering a relationship with Neighborhood Housing Services groups in order to turn foreclosed Veterans Administration properties into neighborhood assets?

Answer: We are at much too preliminary a stage to judge the feasibility of the project.

Foreclosed Properties

Question: Are you exploring similar ventures with the Federal Asset Disposition Association or other holders of foreclosed properties?

Answer: Yes. We are on the FADA properties mailing list and are working with local NHSs to explore particular properties. Many of the FADA properties do not lie within NHS boundaries. In a similar manner and with the support of our board member, Federal Home Loan Bank Board Chairman Wall, we are working with the FSLIC lists of properties.

Local Government Secondary Market

Question: Once again the President is proposing to cut Community Development Block Grants. This year's budget request includes $2.48 billion of CDBGs, a whopping 14 percent decrease. Neighborhood Housing Services (NHSs) have historically depended on CDBG funds for their revolving loan funds and capital improvements and have been the source of low-cost capital for NHSs to deal with problem properties and major rehabilitation challenges in lower income neighborhoods. If the President's proposal to slash funding for CDBGs is accepted by the Congress, the importance of locating additional sources of low-cost capital becomes even greater.

In May of last year you completed a report entitled "Low-Cost Capital Through Secondary Market Leveraging" in response to a Senate Banking Committee directive. This study also discussed the transfer of Section 312 revolving loan fund assets to the Neighborhood Reinvestment Corporation. You testified before the House last year that it appeared that by making the 312 loan fund's cash flow available for leverage through a secondary market, it would be possible to triple the resources available to local governments and assist Neighborhood Housing Services with their low-cost capital needs.

Are you continuing to pursue this concept?

Answer: Yes, however, it quickly became clear to us that there would be no political support for anything that would result in the 312 rehabilitation loan program being terminated. The city organizations were very firm on that, even though there might have been a greater dollar volume available through secondary market leveraging.

Last year, continuing the pursuit of the leveraging concept, Neighborhood Housing Services of America and Neighborhood Reinvestment entered into discussion with the Allstate Insurance Company which volunteered to assist in the development of a secondary market for local government rehabilitation loans, based on the secondary market mechanism used by the NHS revolving loan funds. Also, Allstate agreed to purchase the first $10 million in notes backed by local government loans with the condition that some or all of the proceeds be available to the local NHS in each community.

Since there are presently no subsidy funds available to purchase these loans at or near par, the local governments are required to establish a special fund in order to produce a near market rate yield. In spite of this, at least a dozen local governments have expressed interest in participating in the pilot sale. Immediate access to the capital represented in their loan portfolios, versus waiting the 10-20 years for the loans to be paid in full is the primary factor generating this interest.

This is an excellent source of low-cost capital for NHSs, Mutual Housing Associations, and other community development activities. Existing and future portfolios of local government loans funded through CDBG or other sources can be recycled and the funding used again for similar purposes. Use of sale proceeds will be subject to CDBG regulations.

Many more governments have expressed an interest in access to a secondary market for their loan funds. Particularly if there were subsidy funds available to enable their loans to be sold at or near par.

Project Development

Question: You are requesting $475,000 in fiscal year 1989 for project development, a 5.2 percent decrease below the current budget, although when you take local sources of funds into consideration, the account is projected to decrease by only 2.8 percent.

On the other hand, you are spending 11.6 percent more for project development this year than you did in fiscal 1987. What accounts for the year-to-year fluctuation in this account?

Answer: Neighborhood Reinvestment enters into contracts with local governments to develop and expand NeighborWorks organizations and their capacities. These contracts may often provide fees to cover both direct and indirect costs of the development. Revenue from these contracts is recognized only as earned; that is, when we have incurred specific expenses which are reimbursable under an executed contract with the local entity. In any one fiscal year, we incur some expenses from developments begun in prior years and some expenses from developments begun in the current fiscal year. Due to the varying nature of contracts not yet negotiated when the budget is prepared and the uncertainty of start and end dates for the development, this line is difficult to project. It varies depending upon the requests for developments, our ability to respond and the extent to which development expenses are paid by local funds.

Local Government Funds

Question: On page 27 of last year's justification, you indicated that local governments and other entities would supply $775,000 in fiscal year 1987 compared to an appropriation of $495,000, a ratio of local to federal funds of 1.5 to 1. This year, you project that local sources will contribute $450,000, a ratio of 1 local dollar to 1.05 federal dollars. Why is the ratio of local sources to the congressional appropriation expected to decrease so substantially?

Answer: There are several factors which have come together to produce this result.

Locally controlled CDBG funds are reduced. Most local administrators are under pressure for those funds to be visibly expended locally.

Most of our activity is in expanding an existing NHS to serve additional neighborhoods -- frequently this can be done only if the city partner allocates funds for operating expenses. The private sector resource base continues to support many of the expenses, but frequently is not sufficiently deep to support activities in two or three neighborhoods simultaneously.

The most pressing challenge for most local programs is the shortage of revolving loan capital that can be lent to very low and low-income clients.

Given these factors, we have found that generally in establishing an agreement for expansion with the local NHS partnership, it is more cost-efficient to have the city commit its resources to the local revolving loan fund and some of the increased administrative costs and to have our burden of the developmental costs increase and provide a reduced grant to the revolving loan fund. Usually, the city's commitment is multi-year and thus with the judicious use of Neighborhood Housing Services of America's

Secondary Market, the local NHS loan fund is stretched even further than direct grants would have provided.

We expect this trend to continue and have made provision for it in projecting our FY 1989 use of funds.

QUESTIONS SUBMITTED BY SENATOR MIKULSKI

Affordable Housing Crisis

Question: Given today's crisis in affordable housing and homelessness, what more can the Neighborhood Reinvestment Corporation do to reach out to other neighborhood organizations?

Answer: We have taken our primary role to be the creation of partnership organizations -- including neighborhood residents (often representing existing neighborhood organizations), local government, banks, savings and loans and other business people -- for the purpose of revitalizing specific neighborhoods. As the work has been successfully completed, the partnership organization, usually called a Neighborhood Housing Services (NHS), reaches out to other neighborhoods, with the objective of revitalizing them in turn. Representatives of the new neighborhoods are brought onto the board, with neighborhood representation always in a majority on the NHS board.

This is slow, painstaking work, with the average time taken to reach self-reliance having been seven years by the 61 neighborhoods who have "graduated" from NHSs' assistance. Normally, a strong, well-prepared neighborhood organization is left in place, to continue vigilance over the neighborhood's healthy condition.

Because our budget has been very small (total annual appropriated funds are about equivalent to the cost of one large HUD foreclosure), and we have stretched to the maximum to serve as many neighborhoods as possible, there has been only staff time and resources to reach about 15 additional neighborhoods each year beyond the 300-plus neighborhoods to which we have committed support.

Support to Other Neighborhod Programs

Question: What resources would be required to provide a comparable level of support to neighborhood organizations other than the Neighborhood Housing Services programs?

Answer: To provide organizational development assistance, seed money grants, technical services, training, information services, and periodic program reviews to an average NHS cost $183,000. With this assistance, over a 10-year period, the NHS will have completed work in one neighborhood, be within three years of completion in a second, and be beginning work in a third neighborhood. Reinvestment in the neighborhoods should total over $15 million in that period of time.

Expansion to Other Neighborhood Groups

Question: Could the Neighborhood Reinvestment Corporation's network be expanded to serve 500 other neighborhood groups over the next two years? What resources would be needed for you to do this?

Answer: Given the resources, we could expand services to an additional 500 neighborhoods in seven years. To maintain the quality of our work, a growth gradient on the order of 50 NHSs started in year one and 75 NHSs started per year thereafter would be within our capacity to acquire and train staff, and to continue our present commitments to neighborhoods served by NHSs. By the seventh year, 500 neighborhoods would have been added and the annual budget would be about $54 million in 1988 dollars.

NATIONAL INSTITUTE OF BUILDING SCIENCES

STATEMENT OF MACDONALD BECKET, CHAIRMAN

ACCOMPANIED BY:
LOUIS L. GUY, JR., P.E., TREASURER
DAVID A. HARRIS, AIA, ACTING PRESIDENT
JOHN LLOYD, CONTROLLER
GENE C. BREWER, PRESIDENT EMERITUS

OPENING REMARKS

Senator Proxmire. Our next witness will be the Chairman of the Board of the National Institute of Building Sciences, Mr. Donald Becket.

Mr. Becket, this is your first time before the Subcommittee. It is a pleasure to have you here this morning. As you know, the Institute does not receive an annual appropriation, but instead, receives interest from a trust fund set up in 1984 on a matching basis with private contributions.

PREPARED STATEMENT

Before we proceed, Senator D'Amato has submitted a statement which, without objection, I will make a part of the hearing record at this point.

[The statement follows:]

Statement of Senator D'Amato

The National Institute of Building Sciences [NIBS] was authorized by the Congress in the Housing and Community Development Act of 1974. At this time, Congress recognized the need for an organization that could serve as an interface between government and the private sector to improve the building regulatory environment and facilitate the introduction of new and existing products and technologies into the building process. NIBS, a nonprofit and nongovernmental organization, has received a total of about $10 million from Congress since 1974. Half of this amount was appropriated in 1984.

NIBS is playing a key role in providing data and expertise for the testing and abatement of lead-based paint in public housing. NIBS involvement with this problem has been appreciated, and I am hopeful that the organization will continue to provide direction for the Congress in alleviating this problem.

Senator Proxmire. Mr. Becket, go right ahead with your statement, with the understanding that your prepared testimony will be printed in full in the record. I would appreciate it very much if you could confine your statement to five minutes and then we will go ahead with questions.

STATEMENT IN BRIEF

Mr. BECKET. Thank you very much. Good afternoon, Mr. Chairman. I am MacDonald Becket, an architect from Santa Monica, Calif., and the Chairman of the Board of the National Institute of Building Sciences, better known as NIBS.

INTRODUCTION OF ASSOCIATES

With me today are Louis Guy, Jr., the Institute's Treasurer; David Harris, the Institute's Acting President; John Lloyd, the Institute's Controller; and Gene Brewer, the President Emeritus. And also Bill King, Vice Chairman of the NIBS Board.

We have delivered to the subcommittee our financial statements and copies of our annual report and have submitted for the record our prepared testimony from which I now excerpt.

For the fourth year, the Institute qualified for the full amount of the matching funds generated by the trust fund treasury. Through NIBS, Congress created a public-private partnership, which has well served all segments of the building and construction community, the general public, Congress, and the government agencies.

When the trust fund was established, it included an October 1, 1989, sunset provision. Based on NIBS' accomplishments before and during the period of the matching funds program, the Institute and supporting organizations firmly believe that the sunset provision should be extended 5 years to October 1, 1994, if not in perpetuity.

This will be a signal to the private sector that the public-private partnership is viable and working. It will also assure continuity for multiyear projects. Last year, NIBS leaders proposed four projects that were commenced last spring. Through December 31, 1987, total expenditures amounted to nearly $300,000.

HOUSING REHABILITATION

The first of these four projects, the Housing Rehab Study, was to investigate how to maximize the use of vacant and foreclosed houses and buildings and substandard housing through rehabilitation and renovation.

The task force brought together volunteers from all segments of industry to identify regulatory barriers which inhibit affordable rehabilitation of such projects and to present their ideas on how best to approach the problems. A preliminary report was published last September which generally has received favorable comments throughout the country.

FACTORY-BUILT HOUSING

Another project committee conducted fact-finding roundtables focusing on the regulation of factory-built housing. NIBS was successful in bringing together diverse competing segments of the industry to further identify differences and problems of mutual concern. A copy of that report has been submitted for the record and is available to the public.

FOREIGN INFLUENCES ON CONSTRUCTION

The Foreign Influences Task Force was initially formed to look at the sale in the United States of foreign-manufactured housing and building products. The work of this task force was expanded to look at research and development, foreign investment, competition in construction materials, technology innovation, productivity and quality, and the foreign entries in acquisitions in the U.S. construction industry.

In October, NIBS cosponsored a workshop in Cambridge with faculty from the Massachusetts Institute of Technology for which proceedings are about to be published. We now are preparing a preliminary report which will include the findings of six subcommittees.

LAND DEVELOPMENT CRITERIA

The Land Use Task Force, the fourth of these Institute-sponsored programs, was formed last year to focus on land use regulatory technical practices as they relate to housing affordability, the environment, impact on local government, and public acceptance. Volunteer professional planners, architects, regulators, and builders conducted roundtable discussions in seven locations throughout the country to gather information from the broadest possible segment of industry such as the local government and public interest groups.

A handbook is being written for use by professional staffs of local governments and nontechnical audiences, primarily local citizens, who are involved in the approval process of land development.

PROGRAMS WITH FEDERAL AGENCIES

Last year, the Institute contacted federal agencies over which this subcommittee has oversight and other federal agencies involved in building construction. During the year we worked for nearly a dozen different agencies.

Senator PROXMIRE. Mr. Becket, could you wind up in about a minute or so?

Mr. BECKET. Yes; I can try.

Senator PROXMIRE. OK.

CONSTRUCTION CRITERIA BASE

Mr. BECKET. I will skip through some of this. One of the most recent, which I would like to emphasize, is a government-related project which includes collecting and reorganizing construction specifications and other technical criteria for the Naval Facilities Command, the Army Corps of Engineers, NASA, and the Veterans Administration.

As an architect, I can tell you, whether it is a small project or a large project, a firm provides design services for one of these agencies, it receives criteria that is a mound of paper. Half of it is not up to date; half of it is correcting what they distributed the year before. We have developed and tested a program that is working beautifully. First, we have consolidated all this information on to a CD–ROM disk, a 5-inch disk that can replace all of that paper. It is disseminated to the public efficiently and it is updated quarterly. It will save an unbelievable amount of money for government in storage alone.

[The statement follows:]

STATEMENT OF MACDONALD BECKET

Mr. Chairman and members of the Subcommittee I am MacDonald Becket, an architect from Santa Monica, California, and the chairman of the board of directors of the National Institute of Building Sciences (NIBS). With me today are Louis L. Guy, Jr., P.E., the Institute's treasurer; David A. Harris, AIA, the Institute's acting president; John Lloyd, the Institute's controller; and Gene C. Brewer, president emeritus.

We have delivered to the Subcommittee our financial statements for the year ended September 30, 1987. We also have provided you with copies of our annual report which covers in detail the projects and programs we conducted this past year.

For the fourth year the Institute, through private sector contributions, qualified for the full amount of $500,000 matching funds generated by the Trust Fund created in 1984 under Public Law 98-396. As you know, this Trust Fund was established using $5,000,000 of the $10,000,000 of funds authorized by the Institute's enabling legislation and not otherwise appropriated. The private sector continues to support the Institute with cash contributions and with many thousands of hours of voluntary expertise.

The Institute's Trust Fund and the Public/Private Partnership

In authorizing NIBS, Congress recognized the need for an organization that could serve as an interface between government and the private sector to improve the building regulatory environment and facilitate the introduction of new and existing products and technology into the building process. Through NIBS, Congress entered into a partnership with the private sector to enable findings on technical and regulatory building-related matters to flow freely from the public and private sectors for the public benefit.

This public/private partnership has effectively served all segments of the building community--the public and private sectors, the general public, the Congress and governmental agencies at all levels.

When the Trust Fund was established, a sunset provision was added to provide that the appropriation would revert to the Treasury at the end of five years, or on October 1, 1989. Based on what NIBS has accomplished before and during the period of the matching funds program, the Institute and its supporting organizations firmly believe the sunset provision should be extended five years to October 1, 1994, if not in perpetuity. This will be a signal from the federal government to the private sector that the public/private partnership is viable and working. It also will assure continuity for multi-year projects.

Use of Research Study Reserve Funds

Last year the Institute's leadership proposed the study of four projects: housing rehabilitation; factory built housing, foreign influences on the U.S. construction process, and land use criteria. We commenced these four projects last spring following our testimony and through December 31, 1987, total expenditures amounted to nearly $300,000. Following are the projects and expenses to date:

	AS SUBMITTED TO CONGRESS	FY 87 ACTUAL	FY 88 THROUGH 12/31/87	TOTAL EXPENDITURES
REHAB TASK FORCE TO STUDY MAXIMIZING USE OF EXISTING HOUSING STOCK, FORECLOSED AND ABANDONED BUILDINGS	$ 125,000	$ 75,812	$ 456	$ 76,268
FACTORY BUILT HOUSING FORUMS/COMMITTEE	50,000	65,132	9,291	74,424
TASK FORCE STUDYING FOREIGN INFLUENCES ON THE U.S. CONSTRUCTION INDUSTRY	50,000	53,059	16,219	69,279
LAND USE TASK FORCE	25,000	72,253	6,631	78,884
	$ 250,000	$266,259	$32,598	$ 298,857

Housing Rehab Task Force

Last year this task force was formed to investigate how to maximize the use of vacant and foreclosed houses and buildings and substandard housing through rehabilitation and renovation. The task force found that there are some 1.7 million vacant houses and buildings in the U.S. Over 80% of the units that rent for less than $250 per month are over twenty years old and are in need of repair. Additionally, the Department of Housing and Urban Development last year reported that in its inventory of 1.328 million publicly-assisted housing units that 5.6% or 74,368 were vacant. The task force brought together volunteers from all segments of the industry to identify regulatory barriers which inhibit affordable rehabilitation of such projects and to present their ideas on how best to approach this problem. A preliminary report, Meeting America's Housing Needs, was prepared and published last August incorporating proposed ideas and concepts in four broad areas: zoning, codes, regulations and finance. This preliminary report has generally received favorable acceptance from throughout the country. The City of Fort Worth, Texas, is planning a demonstration project and will test some of the ideas recommended.

Factory-Built Housing Forums Project Committee

Last June a task force conducted three regional fact-finding roundtables focusing on the regulation of factory-built housing, including panelized, precut, modular and manufactured housing (mobile homes). The areas addressed were codes, siting, transportation, and zoning. NIBS was successful in bringing together diverse and competing segments of this industry to further identify differences and also problems of mutual concern. A report of the proceedings, including findings of the task force, is now available and a copy is attached for the record.

Foreign Influences Task Force

Two years ago the chairman of the Subcommittee on Science, Research and Technology of the House Committee on Science, Space and Technology asked NIBS to examine the current and potential impact of Japanese inroads into the domestic housing industry. As the committee began its work it became apparent that this issue was more complex than the sale in the U.S. of foreign produced housing. It included foreign involvement in almost all aspects of the construction industry such as purchase of land, financing, ownership in product manufacturing, importing and related acceptance of products and materials, long and short term financing, and ownership of design and construction firms. As a result the scope of work was expanded as was the task force which now has subcommittees related to research and development, foreign investment in real estate, competition in construction materials, technology innovation, productivity and quality, and foreign entries and acquisitions in the U. S. construction industry. In October NIBS co-sponsored a workshop in Cambridge with faculty from the Massachusetts Institute of Technology. The results of this workshop will soon be published. The Institute is in the process of preparing a preliminary report which will include findings to date of the six subcommittees.

Land Use Task Force

This task force was formed last year to identify needs for technical criteria and guidelines on issues affecting housing affordability, the environment, quality, and public acceptance. Comprised of volunteers who are professional planners, architects, regulators, and builders, the task force conducted roundtable discussions in seven U.S. cities this past year. Representatives from the broadest possible segment of the building and construction and land development industries as well as local government and public interest groups participated in these sessions. With the cooperation and participation of the staffs of the American Planning Association, Urban Land Institute, and the National Association of Home Builders, a handbook of land use methods and criteria is being written for use by the professional staffs of local governments and non-technical audiences, primarily local citizens who are involved in the approval process of land development. This handbook will contain guidelines on such areas as residential density, zoning and subdivision processes, criteria for parking and streets, sensitive sites, and water and sewer utilities. The draft document will be released soon for public comment and it is hoped that a final copy will be approved later this year for voluntary adoption and use by local communities.

Work for Federal Agencies

During this past year the appropriate agencies over which your Subcommittee has oversight, as well as all other federal agencies involved in construction, were contacted and sent information about NIBS. With the change in personnel at these agencies, this is a continuing process to assure awareness of the Institute's capabilities. The following table shows the work done during the last fiscal year for various agencies and that which is budgeted for 1988:

CONTRACT	AGENCY	FY 87 ACTUAL	FY 88 BUDGET
Construction Criteria Base (CCB) Research	Army, Navy	$ 385,528.50	$ 118,288.03
Common Code Format	FTC	1,160.92	-o-
Asbestos Conferences	EPA	10,800.72	14,199.28
Product Approval Report	Army, Navy, HUD, FTC, VA, & Commerce	33,673.60	-o-
Model Manuals/Facility	VA	24,367.64	50,493.16
NBS Research Agenda	NBS	18,831.39	25,000.00
BTECC Air Infiltration	DOE	5,000.00	-o-
BTECC National Plan	DOE	36,344.56	24,057.85
BSSC Lifelines	FEMA	187,004.33	-o-
BSSC Phase III	FEMA	61,423.93	-o-
BSSC Phase IV	FEMA	162,521.46	431,209.81
BSSC Phase V	FEMA	164,270.50	335,613.37
Codes, Criteria Studies	GSA	-o-	118,288.00
Modular Housing Project	HUD *	-o-	50,000.00 *
TOTALS		$1,090,927.55	$1,167,149.50

* As authorized by Congress in the Housing Act of 1987

Computer Information on Construction Specifications

With the support of the Naval Facilities Engineering Command and the Army Corps of Engineers, NIBS has completed the initial development work using optical disc technology to distribute construction specification information. This computer software program is called Construction Criteria Base or CCB. In addition to construction data from the Army and the Navy, the compact disc contains information provided by the National Aeronautics and Space Administration and the Veterans Administration. In this fiscal year we anticipate funding from the Bureau of Reclamation for the purpose of including its data and to convert its construction specifications processing system to this new technology. The system has been demonstrated to other federal construction agencies and it is anticipated that there will be active involvement later this year by GSA's Public Buildings Service and the construction arm of the Department of Energy.

The thousands of pages of the various federal agencies' criteria, guide specifications and standards can be put on a single five-inch optical disc, also called a compact disc - read only memory or CD-ROM. Through this technology and with the support of the federal construction agencies, significant cost savings and efficiencies will accrue to the agencies and the private sectors offering products and services. In an effort to expand the CCB program beyond the public sector, the Institute has held demonstrations and discussions with private sector standards writing organizations to encourage their involvement in distributing construction industry standards on the CCB, or at a minimum to utilize compatible technology.

National Bureau of Standards Research Agenda

For the third consecutive year NIBS is developing building community-recommended research topics for the National Bureau of Standards' Centers for Building Technology and Fire Research. NIBS is surveying its members, as well as other organizations and individuals with knowledge and interest in the building research capabilities of the NBS, and developing specific research recommendations in the areas of building environment, building materials, structural engineering and fire safety. The surveys have been completed and specialists in these four areas met last December to prepare specific comments and recommend priorities for the approximately 140 projects submitted in response to the survey. These recommendations, with appropriate narrative, have been assembled into a final document which is now being processed through the consensus process for submittal to the NBS in May.

Model Manuals for the Veterans Administration

A NIBS committee is guiding the development of a series of four Model Manuals for VA Medical Facility Start-Up, Operations and Maintenance. Final versions of all manuals in the series currently are under review. The purpose of the manuals is to provide hospital design, contracting, operating, and maintenance personnel with tools to improve the effectiveness of the transition from construction to operations and to enhance the process of maintaining the facilities. These manuals provide a means for condensing critical programming, planning and design data into a useful format -- for effective use by the hospital staff. The final drafts of the four manuals will have been distributed for balloting to the cognizant project committee through the Institute's consensus process.

Building Seismic Safety Council

The Building Seismic Safety Council was organized in 1979 under the auspices of NIBS. Its primary goal is to reduce risks to life and property from earthquakes by developing and stimulating widespread use of improved provisions for the design and construction of new buildings. Since its inception, the Council has completed the following reports:

- Overview of Phases I and II of the BSSC Program on Improved Seismic Safety Provisions (1984);
- Trial Designs (1984, 17 volumes);
- NEHRP Recommended Provisions for the Development of Seismic Regulations for New Buildings (1985);
- Societal Implications: Selected Readings (1985);
- Guidelines for Preparing Code Changes Based on the NEHRP Recommended Provisions (1986);
- Improving the Seismic Safety of New Buildings: A Community Handbook of Societal Implications (Revised Edition, 1986);
- Improving the Seismic Safety of New Buildings: A Non-Technical Explanation of the NEHRP Recommended Provisions (1986);
- Plan for Stimulating Widespread Use of the NEHRP Recommended Provisions (1986);
- Abatement of Seismic Hazards to Lifelines: Proceedings of the Building Seismic Safety Council Workshop on Development of an Action Plan (1987, 6 volumes);
- Action Plan for the Abatement of Seismic Hazards to New and Existing Lifelines (1987).
- Guide to Use of the NEHRP Recommended Provisions in Earthquake-Resistant Design of Buildings (1987);
- Seismic Considerations: Elementary and Secondary Schools (1987);
- Seismic Considerations: Health Care Facilities (1987);
- Seismic Considerations: Hotels and Motels (1987);

The Council provides a prime example of an activity that makes use of NIBS reputation and objectivity to bring together experts from all relevant sectors of the building community to work voluntarily on solving an identified national problem.

Building Thermal Envelope Coordinating Council (BTECC)

This Council was established in 1982 under the auspices of NIBS to promote cooperation between the public and private sectors of the building community in research and development of safe and energy efficient systems to reduce the cost to heat and cool buildings. BTECC currently is finalizing the third edition of the National Program Plan on the Thermal Performance of Building Envelope Materials and Systems. The plan will be a compendium of research needs for improved practical standards for energy conservation. It will also provide an excellent resource for public and private research organizations in their efforts to more efficiently allocate scarce research dollars. NIBS will soon publish the proceedings from BTECC's Program Planning Workshop on Building Air Infiltration and Ventilation. The programs of this council have received both public and private financial support.

Lead-Based Paint Abatement

In April, 1987, the Institute responded to requests from housing authority representatives and others concerned about the hazards of lead poisoning in homes. These organizations sought NIBS' assistance in developing a strategy for the removal of lead hazards in public housing. While this problem dates back to 1971 it is being readdressed due to the recent Ashton v. Pierce court decision which required revision of HUD regulations. There were no funds available to sponsor this project either from a federal agency or the private sector. Had it not been for the matching funds trust fund at Treasury, which enables the Institute to undertake projects of a significant public interest, we would not have been able to form a task force to study this problem. In response to recommendations by the Task Force, the Institute is discussing with HUD the possibility of developing technical guidelines on safe ways to test for, abate, clean-up and dispose of lead-based paint in housing.

Asbestos Abatement

In 1986, the Institute published Asbestos Abatement and Management in Buildings, Model Guide Specifications, regarded as the nation's authoritative and comprehensive guide specifications addressing options for asbestos control in buildings. The Institute now is in the process of up dating these guide specifications to incorporate prevailing methods, technology, and materials, and to improve coordination with new regulations. Nearly 3,000 copies of this, the most popular Institute publication, have been disseminated since its publication. NIBS also developed and conducted training sessions on the use of the guide specifications which have been well received by approximately 250 persons who have attended the EPA-sponsored sessions held in several cities. The cost of eliminating asbestos from every building, school and residence where it exists could cost the American economy as much as $75 billion. NIBS has found that up to 80% of current asbestos-abatement projects involve removal of the asbestos, which not only is more costly, but can, if improperly conducted, multiply hazards since disturbing the material may release asbestos fibers. In perhaps 80% of these cases a comprehensive maintenance and repair program could better serve the needs of the building owner and the public.

Fire Hazards Research

Five years ago NIBS became involved in the fire toxicity issue when New York and California began considering fire toxicity regulations. A steering committee, representing both public and private interests, formed last year is guiding the development of a new performance test method for measuring the potential combustion toxic hazard of building products and contents. The test, expected to be developed by mid-1988, will be submitted to round-robin testing and then processed through the voluntary standards process. The test will yield data suitable for reference by product manufacturers, design professionals, and building and fire officials. Tests similar to this protocol are needed to develop data bases for use with the computer-based fire hazard modeling programs developed by the Center for Fire Research at the National Bureau of Standards. The third Fire Hazards Conference sponsored by NIBS is scheduled for Washington this August to review the laboratory technical data and plan further actions. The objective of NIBS' effort is to assist in the formation of a well-balanced and meaningful response to the public concern for this special concern of combustion toxicity. This will help all levels of government in carrying out their regulatory responsibilities.

Wood Protection Council

A third council under the NIBS umbrella promotes the development and use of safe and effective means for protecting new and existing buildings from damage by wood destroying organisms. The Wood Protection Council has published Indoor Air Sampling for Termiticides, an authoritative piece on testing for possible contamination from pesticides, a major environmental concern. It plans to publish Recommendations for Protection of Wood Against Decay and Termite Attack, a guide on the options available for proper protection against decay and insect pests. It also is planning a conference in October during which the latest and safest methods in wood protection and environmental issues will be examined.

Modular Housing Study

In January, 1988, NIBS formed a Project Committee to identify feasible alternative systems for implementing a voluntary preemptive code for modular housing. Since it was formed the committee has developed four options for implementing a modular housing regulatory program and identified pros and cons for each. The committee has also agreed to a unified approach for a life-cycle energy standard. All of the options address administration, codes and regulations to be used, certification methods, code and administrative regulation interpretation, third party approvals, siting and transportation, handling consumer complaints, and implementation. This program, conducted in response to direction in the Housing and Community Development Act of 1987, will be completed by mid-summer. The cooperation and constructive contributions provided by the committee members constitute an excellent example of the positive and timely response to a controversial issue possible through the NIBS process.

Performance Criteria

The NIBS authorizing legislation assigns the task of developing performance criteria suitable for adoption by government at all levels. A meaningful response to this task has been one of the most difficult of all our charges. However, we are pleased to report that the Guide Specifications developed by the Asbestos Task Force, the seismic provisions of the Building Seismic Safety Council, the test method being produced by the Fire Hazards Task Force, and now the needed guidance documents to be produced by the Lead-Based Paint Task Force are fulfilling that commission. Though many more opportunities exist to provide similar performance based criteria essential for other building community needs, we feel we've made a worthwhile start.

Financial Statements

We have delivered to the Subcommittee our year-end financial statements as well as our proposed budget for FY 1988. The Institute continues to exercise careful stewardship of its funds from the Treasury Trust Fund and from dues, grants and contributions of our private sector supporters and contract fees from federal agencies. Revenues increased in FY87 to $2,280,656 up from $1,721,742 in FY86, principally because of an increase in contracts and sales of publications. Unrestricted donations and membership dues were off and the Institute hopes to correct this decline with a targeted marketing program this year. Expenses were in excess of revenues by $224,750 primarily because of commitments made to conduct Institute funded projects. This resulted in a decrease in the Institute's total equity from $848,104 to $623,354. The income budget for FY88 has been conservatively stated and we have tightened controls over expenses, seeking to show at least a modest surplus at year-end.

Summary

Mr. Chairman, we have given you a copy of our 1987 Annual Report to The President which has considerably more detail and information on our projects and activities. On behalf of the staff, members and the board of directors of the National Institute of Building Sciences, I thank you and members of the Subcommittee for the privilege of testifying before you. The Institute has become an integral and important element of the building community and we hope this committee will look with favor on maintaining the excellent partnership with the private sector by extending our matching funds trust fund for five years to October 1, 1994. Mr. Chairman, this concludes my prepared testimony, we welcome your comments and questions.

Senator PROXMIRE. Let's proceed to questions.

Mr. BECKET. Very well, sir.

SELF-SUFFICIENCY

Senator PROXMIRE. A $5 million trust fund was set up for NIBS in August 1984 to revert to the Treasury on October 1, 1989. The assumption behind the law which created NIBS was that the Institute should become self-supporting by that time. I see in your opening statement that you plan to request a 5-year extension, you have just told us that, for the trust fund until 1994, if not in perpetuity.

Can you tell me that in the event that you don't get this extension, what specific steps are you taking to achieve self-sufficiency by the end of fiscal year 1989?

Mr. BECKET. We have found that self-sufficiency isn't going to work for one very simple reason: We need and must have the consensus process, and the consensus process must have the private sector as well as the government involved. We can't just work for private corporations, because without government agencies taking part, it is too one-sided. We must have a consensus group which includes the outside public and the manufacturers—the complete area of the construction industry represented.

Senator PROXMIRE. I understand that viewpoint, but wouldn't continued federal support for discrete individual projects send the same signal?

Mr. Becket. I don't believe so.

Senator Proxmire. Why not?

Mr. Becket. We still don't get the balance. Let's assume the other way around for example. If we don't have all of industry taking a look at this and HUD were to come to us and say, "Look here, we have a problem, and by the way, we are paying your bill, and if we don't like your answer, you are not going to get any more work from us."

Senator Proxmire. Let me put it this way, then. The National Academy of Sciences does a great deal of work for the federal government with no trust fund money. Why should you be treated differently than the National Academy, which does such a fine job?

Mr. Guy. We are growing; the size of our program is growing, and we may reach the stage where we have enough operation that we would be able to do without the $500,000, but as it now stands, the $500,000 interest on the trust fund that we have been getting annually is crucial to our overhead and also crucial to our credibility as being part of a public-private partnership.

As we understand the structure of the National Academy of Sciences, it includes the National Academy of Sciences [NAS], the National Academy of Engineering [NAE], the Institute of Medicine [IOM], and the National Research Council [NRC]. The NAS, NAE, and IOM are honorific societies whose individual members are appointed because of some outstanding contribution to their respective fields. The NRC serves as the operating arm for both academies and the Institute, and the NAS serves as the contract agent for the NRC. We understand the NRC has its financial ups and downs and expands and contracts to accommodate such changes; however, the parent institutions enjoy a number of sizable endowments which permit them to absorb the shock of financial shortfalls.

Furthermore, the NRC is a large operation with a number of long-term activities having rather sizable funding. It covers a wide spectrum of studies, investigations, and advisory functions concerned with many facets of the fields of science, engineering, and medicine. The breadth of their operations likely provides for a financial base which is far more stable than possible for NIBS given its limitation to the building sciences.

Both organizations are subject to the trials and tribulations of the nonprofit organization. A base of continuing financial support—be it through endowments, overhead on a large and reliable number of sizable contracts, or congressional support—ensures against the intentional or even unintentional temptation to sacrifice objectivity and purpose in order to obtain contracts and grants for relatively insignificant or unimportant activities for the sole purpose of keeping the doors open and maintaining staff during dormant periods.

Senator PROXMIRE. Let me ask you a question on another point. The Department of Housing and Urban Development recently signed off on an outline of suggested regulatory changes concerning procedures for the prevention of lead-based paint poisoning.

Mr. BECKET. That is true.

Senator PROXMIRE. These proposed regulations have caused some consternation because although studies found that 40 percent of the children, 40 percent in a family who were not ill before lead paint abatement procedures were implemented, became ill after abatement.

The proposed regulations would go ahead and publish testing and abatement standards prior to completion of a study on safe and effective abatement. Have you examined the proposed regulatory changes, and if so, are you concerned over their possible effect?

Mr. BECKET. We are just getting into lead-based paint at this point. We are just right in the middle of coming up with a recommendation for HUD. Mr. Chairman, if I might add material to that in response.

Senator PROXMIRE. Go ahead.

Mr. HARRIS. We are familiar with the HUD-proposed regulation. As you may recall, the HUD regulation really is a framework which will include additional guidance, detailed guidance, that is not included in the regulation. We are concerned that that guidance must be very detailed and comprehensive in order to avoid the kinds of health effects that you identified.

Senator PROXMIRE. Pardon me, sir. Your name is Harris?

Mr. HARRIS. Dave Harris, that is right, sir.

Senator PROXMIRE. I beg your pardon. Fine.

Mr. HARRIS. In addition to the concerns about healthy children being located in recently abated units becoming ill, many of the children that are displaced from units while they are being abated become well and reduce their blood lead levels over the period when they are out of the housing.

When they return to the same dwelling, their blood lead levels go back up, which indicates there is serious problems with the completeness of the cleanup of the lead aerosol and lead dust in the units. We believe that the kind of work that we have done in the asbestos guidelines which have brought technical competency to that issue can well be a model to resolve this issue but it needs adequate funding.

In our discussions with HUD, they have indicated they don't have the funds to provide a complete document, and they are asking for something less. We have indicated that we feel that something less would not be in the best interest of those children.

Senator PROXMIRE. What indication is there that they might be forthcoming of more support in view of your reaction?

Mr. HARRIS. We have a meeting with them tomorrow to further discuss this issue.

Senator PROXMIRE. Will you keep the subcommittee informed as to the result of that? We would appreciate that for the record.

Mr. HARRIS. Yes, sir.

Senator PROXMIRE. How much would be necessary, do you think, to do an adequate job?

Mr. HARRIS. Our proposal to HUD is $128,000 over a 6-month period to create the guidelines. We believe that this program is now at about the stage that asbestos industry was about 3 or 4 years ago. In looking back at the history of that activity—and I am sure that your subcommittee is well aware of that with EPA—it is clear that the HUD demonstration programs, also required under the legislation, will add a great deal of useful data, as will data coming from housing authorities in South Carolina, Baltimore, Massachusetts, Pittsburgh, and other areas active in this type of work.

LEAD-BASED PAINT POISONING ABATEMENT AND TESTING

The Chairman of our Committee, Mr. Jim Keck from Baltimore, Md., indicates that it is his understanding that probably 99 percent of the work in abatement and testing that is going on out there is being done incorrectly and causing injuries. We have to improve that.

Senator PROXMIRE. What percentage did you say?

Mr. HARRIS. About 99 percent.

Senator PROXMIRE. That is shocking. So virtually all of it is ineffective.

Mr. HARRIS. That is correct.

Senator PROXMIRE. In fact, it is causing injuries because it is wrong.

Mr. HARRIS. There are no guidelines out there. There is still guidance on the books that recommend sanding of lead-based paint which is one of the worst things you can do as it increases the lead dust levels.

Senator PROXMIRE. That is an appalling health hazard. Thank you very, very much, gentlemen. I appreciate your testimony very much.

SUBMITTED QUESTIONS

[The following questions were not asked at the hearing but were submitted to the Institute for response for the record:]

QUESTIONS SUBMITTED BY SENATOR PROXMIRE

Q. I note that in fiscal year 1987 you received $1.09 million in grants and contracts, although you had budgeted for $1.354 million. What accounts for the shortfall of $263,000 - 19 percent below your budgeted amount?

A. The majority of NIBS' federal contracts are cost reimbursable agreements awarded at the discretion of and schedule set by the agency. Contract income is equal to allowable cost, within the limits of the contract. Our actual contract income will be reduced if we are able to complete work with less effort than originally budgeted. Similarly, annual income will be reduced if the costs are spread out over a longer period of time than originally estimated, thus delaying the income beyond the fiscal year during which it was expected. The effect is the same if there are delays in signing contracts, or changes in scope which reduce the contract amount. Such conditions are a normal part of contracting and contributed to the difference between our projection and the actual amounts.

Q. In the current budget year you plan to receive $1,167,149 in grants and contracts, an increase of 7 percent over fiscal year 1987. A total of $766,822 - almost 70 percent - of your grant funds in the current fiscal year are coming from the Federal Emergency Management Agency. Yet the Department of Housing and Urban Development is providing only $50,000 - 4 percent of your grant support. Why isn't HUD providing you with a greater degree of grant support?

A. The significant cutback in HUD budget and lack of new programs are seen as the primary reasons. The Division of Innovative Technology, Safety and Standards, of HUD's Office of policy Development and Research (PD&R)--the HUD group with which NIBS has most often worked--has been operating with a drastically reduced budget during the past few years. For example, in 1980 the PD&R budget was $35 million. For the past few years, the PD&R budget has been about $16 million of which $13 million goes to the Department of Commerce for the Annual Housing Survey.

We understand the Division of Innovative Technology, Safety and Standards has been operating on a budget of about $500,000 during this period. Formerly, this group's annual budget was several million dollars. Thus, HUD has not had the funds to undertake programs for which the Institute could provide technical assistance. With the growth in interest and importance of lead-based paint, radon, asbestos, land use, and other issues of importance to HUD, we hope to resume the productive relationship held with HUD earlier in this decade.

Since 1982, the FEMA Earthquakes and Natural Disasters Program Division has been funding, under a single contract, a multiphased long-range program being conducted by the NIBS' Building Seismic Safety Council (BSSC). This program has provided for the consensus based development of the National Earthquake Hazards Reduction Program (NEHRP) Recommended Provisions for the Development of Seismic Regulations for New Buildings. The document was first published in 1985 and is being revised for publication in 1988. The update will include a series of companion documents intended to encourage widespread use of those provisions throughout the United States wherever the potential for earthquakes exists.

The current year's budget reflects FEMA funding for: 1) BSSC's continuation of the provisions' updating process; 2) activities directed toward dissemination and education concerning application of the provisions and companion documents; and 3) a large scale demonstration of their application, and development of additional focused reports directed toward specific target audiences. The budget also includes a FEMA contract with NIBS for a short-term continuation of an earlier BSSC program on mitigation of risks to "lifelines" from earthquakes and other natural disasters.

The work being conducted for FEMA by NIBS and BSSC is an excellent illustration of the service that NIBS can provide the Federal agencies in its position as an objective interface between the Federal government and the private sector. Within the BSSC program alone well over 100 individuals have voluntarily contributed their time and expertise, the value of which exceeds the dollar value of the contracts by approximately five times.

NIBS offers HUD and other Federal agencies its service of marshalling public and private sector talent to address nation wide building regulatory/technology problems. We are working with several agencies--HUD, Veterans Administration, Environmental Protection Agency--and anticipate work with others in the near future.

NIBS - Rehabilitation Study

Q. Last year a NIBS Task Force completed a study entitled "Meeting America's Housing Needs." What surprised me about the study was that it focused on several policy issues. Here is one example I found on page 22, and I quote, "Consideration should be given to conversion of public housing rental units to home ownership. Where units can no longer be effectively operated as public housing units, they should be put up for sale and the proceeds used for additional public housing units."

Isn't NIBS stepping out of its area of expertise, which is technical in nature?

A. Originally the program was to study the broad issue of low-income housing needs in order to focus on technical and regulatory issues in the broader context. Clearly, some of the recommendations in this preliminary report went beyond this objective. Unfortunately our procedural safeguards were not used. The board has reinforced procedures to analyze the content of proposed projects to avoid this in the future.

Q. I have been told that members of the Task Force did not get an opportunity to review the study to see that it reflected their views. Is that true, and if so, why not?

A. The Institute's procedures requiring review and opportunity for comment on drafts, written ballots by committee members, and board approvals before publishing reports were not followed. The well intentioned attempt to expedite the preliminary report--to encourage further discussion and needed funding--overlooked the risks of shortcuts. But we learned a lesson and have reinforced the checks and balances to keep this from happening again.

We are technically oriented and we intend to apply our interests to areas where it is needed.

NIBS - Membership and Donations

Q. Your fiscal year 1987 budget projection for membership and donations totalled $570,775, yet you actually received only $423,685, 26 percent less than anticipated. What accounts for this shortfall?

A. In FY 87, we had projected a total of $570,775 in receipts from donations and member dues. Our actual receipts for these items totalled $423,685, resulting in a shortfall in projected income of $147,000. Several factors account for this shortfall.

Membership income was less than projected because, in an attempt to broaden membership, we reduced our annual dues for individual members from $100 to $50 ($35 for government and academic employees). Also, it had been our billing procedure to invoice all members on their anniversary date. During FY 87, we changed this procedure to invoice all members on the first day of January. Consequently, the bulk of our FY 87 membership bills were pro-rated to reflect only the portion of the year from members' anniversary dates through the end of December. The effect of this change was to postpone a portion of our projected FY 87 member dues into FY 88. Also, problems in converting from manual to computerized billing procedures delayed receipt of some members' dues. These problems have been resolved and will not recur.

Restricted donations fell short of our projection due to delays during FY 87 in actually receiving pledged monies. Several organizations which had made pledges did not pay until FY 88.

Unrestricted donations were below our projected level because several previous donors either dropped out of our funding program or reduced the amount of their annual donation. We believe temporary financial constraints were partially responsible.

Q. I understand that membership is currently about 400, compared to 600 in the recent past. Does this indicate that you are losing support in the private sector?

A. Membership in the Consultative Council is currently about 480. Membership in other councils operating under the NIBS umbrella comprise approximately an additional 200 individuals and organizations. Further, several board sponsored activities are advised by task forces, many of the members of which are not members of NIBS councils. The lead-based paint and asbestos task forces include more than 150 additional members. These added to those contributing to and taking part in the review process to develop the National Bureau of Standards Research Agenda combine with council membership to add up to over 900 contributors. The number of active Institute programs remains high and the voluntary building community involvement in them is increasing. Efforts to apply our expertise to new areas are evident in the lead-based paint and modular housing studies.

Q. How much do you expect to receive in membership fees and donations in fiscal year 1989?

A. Although accurate projections for membership dues and donations are always difficult, especially at this early date, we estimate that we will receive $120,000 in member dues and $300,000 in donations in FY 89. Our level of donations in 1988 may vary depending on our program plan for FY 89.

NIBS -- Salaries

Q. You are spending a total of $854,171 on salaries in fiscal year 1988 with $669,041 of that to support 16 full time professionals. This is a 12 percent increase above the 1987 level for professional salaries. What accounts for that rather substantial increase?

A. Although both the actual professional salaries for FY 87 and the projected salaries for FY 88 are for the support of sixteen full time professionals, the actual FY 87 salaries do not reflect a full year of pay for several of these positions. During FY 87, we added nine new positions, and eliminated two others. These changes were made throughout the year, and accordingly, only reflect actual time worked. Our projection for FY 88 is based on these sixteen positions being paid a full year's salary. The FY 88 projection includes estimated salary increases of $11,162, or 3%. The remainder of the increase, or $60,073 is due to the addition of personnel. Due to attrition and other reductions in staff, we project actual salary expenses in FY 88 to be $756,000, the revised budget figure adopted on May 20, 1988.

Q. How much do you plan to spend on salaries and expenses in fiscal year 1989?

A. We have not finally determined our personnel needs for FY 89. If adjustments in personnel levels are not needed between now and the end of FY 89, we would spend approximately $672,000 in FY 89. If additional contracts or grants demand additional personnel to meet these responsibilities, we will respond as needed.

Q. How many full time employees, both professional and clerical do you plan to have on board next year?

A. Based on our current level of activities, we expect to have seventeen to nineteen full time positions in FY 89.
NIBS -- Annual Meetings, Publications

Q. You are budgeting receipts from annual meetings of $40,000 in the current fiscal year, more than twice what you received in 1987. Why do you think annual meeting receipts will more than double?

A. Our actual receipts for our FY 87 annual meeting (held in November 1987) were $22,000. We over estimated our receipts for the 1987 function, and have adjusted our FY 88 budget accordingly.

Q. Similarly, you are planning to receive $352,860 from publications in fiscal 1988 compared to only $148,657 in 1987. Why do you think this revenue stream will more than double?

A. Earlier this fiscal year, we began selling subscriptions for the Construction Criteria Base (CCB). In addition, there is still a strong demand for our technical guide, Asbestos Abatement and Management in Buildings, Model Guide Specifications, which we published in FY 87, and accounted for most of our publication sales last year. During the first half of FY 88, our publication sales totalled $191,000. At this rate, we will exceed our original estimate for publication sales during FY 88.

NIBS -- Seminars/Workshops

Q. You are planning to receive a total of $20,000 in the current fiscal year from seminars and workshops, yet you received a total of $82,211 in 1987. What seminar activities are being scaled back?

A. Seminar activity is cyclical. More seminars are conducted in some years than others. The level of activity is dependent on the timely topics or the sequence of meetings held on 2-3 year cycles.

Further, six workshops were held in FY 88 to train professionals in the use of NIBS' asbestos guide specifications. However, these functions were planned and held under an agreement with the Environmental Protection Agency in cooperation with the national asbestos training centers and no fees were assessed by NIBS.

EXECUTIVE OFFICE OF THE PRESIDENT

Office of Science and Technology Policy

STATEMENT OF DR. WILLIAM R. GRAHAM, SCIENCE ADVISOR TO THE PRESIDENT AND DIRECTOR, OFFICE OF SCIENCE AND TECHNOLOGY POLICY

ACCOMPANIED BY:

JONATHAN F. THOMPSON, EXECUTIVE DIRECTOR, OFFICE OF SCIENCE AND TECHNOLOGY POLICY
THOMAS RONA, ASSOCIATE DIRECTOR, OSTP
BEVERLY BERGER, ASSISTANT DIRECTOR FOR LIFE SCIENCES
MICHELLE VAN CLEAVE, ASSISTANT DIRECTOR, NATIONAL SECURITY
MICHAEL MARKS, ASSISTANT DIRECTOR FOR GLOBAL TECHNOLOGY

Senator PROXMIRE. Our last witness is the President's Science Advisor. That is William Graham. Dr. Graham will present the fiscal year 1989 budget request for the Office of Science and Technology Policy.

Mr. Graham, you may go ahead and summarize your statement, if you wish, with the understanding that your prepared statement will be printed in the record in its entirety. You might identify the distinguished people you have with you.

INTRODUCTION OF ASSOCIATES

Dr. GRAHAM. Thank you, Mr. Chairman. At my left is Dr. Thomas Rona, the Associate Director of the Office of Science and Technology Policy. At his left, Dr. Beverly Berger, Assistant Director for Life Sciences. At my right, Mr. Jonathan Thompson, the Executive Director of the Office. Next to him, Ms. Michelle Van Cleave, Assistant Director for National Security and at her right, Mr. Michael Marks, Assistant Director for global technology.

If I may read my statement or summarize it briefly, Mr. Chairman.

Senator PROXMIRE. I would appreciate it if you would do it in 5 minutes.

BASIC RESEARCH

Dr. GRAHAM. All right, I will do that. As you know, President Reagan strongly supports the key role that science and technology play in achieving our national goals. Strong support for basic research, both federally and jointly with states, industry, and the universities, has been a hallmark of his administration. President Reagan sees basic research as the pass key to our future and the budget reflects that very strongly.

Many years from now, our competitiveness and, in fact, our security, will be determined by the technological innovation that spawned from the knowledge produced in basic research today. The fiscal year 1989 budget, Mr. Chairman, reflects this.

Of course, as a nation, we spend much more on research than the federal budget. In fact, we spend about twice the amount overall that the federal government spends in research and development.

The federal expenditure, some $65 billion, goes toward maintaining and enhancing our national security improving the competitiveness of our products in the international and national marketplace, improving the quality of life for our citizens, providing for the health and welfare of Americans today and in the future, and gaining a better understanding of the world around us and beyond.

I am pleased to report that in addition to the federal funding that I will mention in a moment, private funding in research and development has shown a sustained real growth over the last 7 years.

TECHNOLOGY ACCOMPLISHMENTS TRANSFERRED TO PRIVATE SECTOR

The administration has, in fact, addressed policies to transfer technology's accomplishments within the federal funding structure and supported by the government to the private sector as rapidly as possible. Several steps have been taken in that direction, Mr. Chairman, and I see a considerable success occurring in just that direction.

Of course, each sector, private and government, has a separate role in the conduct of research and development. The private sector invests in R&D when the expected returns and associated risks in relation to investments are considered by the investors to be commercially prudent.

The federal government should maximize its support of that process and minimize its interference in our free economy, while at the same time supporting the federal role of funding basic research and also funding those particular developmental programs which provide products to the government that are, in fact, unique to the government, such as products for our national security needs.

$65 MILLION R&D AND FACILITIES BUDGET

The President's budget includes a total of $65 billion for research and development and facilities, an increase of $2.7 billion over fiscal 1988, or 4 percent. Of this total, approximately $21 billion is for nondefense related R&D, an increase of 6 percent.

Included in this total is $10.3 billion for basic research, which is a $600 million increase over the fiscal 1988 level. Significant increases or continuing support are also being requested for other important programs, including biomedical and AIDS-related research, the superconducting super collider; research on causes of changes in the global environment; a joint Department of Defense-NASA program in support of the national aerospace plane; the space station and other space science and technology programs; a clean coal technology demonstration program; and selected Department of Defense high-level strategic and tactical programs.

The $600 million increase represents a continuing growth in the basic research accounts which has occurred since 1981 and amounted to a real growth of 52 percent in basic research sponsored by the federal government since that time. That has been maintained in the fiscal year 1989 request. In fact, about one-half the $10.3 billion proposed for basic research will go to universities.

These funds, of course, have a dual purpose of developing new knowledge while also developing future generations of scientists, engineers, and university faculties.

FEDERAL BUDGET

Senator PROXMIRE. Dr. Graham, could you wind up in about a minute?

Dr. GRAHAM. Yes, Mr. Chairman.

I will just mention several accounts quite briefly. The National Science Foundation budget for research is proposed to be increased to just over $2 billion, about one-third of $1 billion increase, or 20 percent, in 1989. Health and Human Services are projected to increase approximately 10 percent to $7.9 billion in the research and development activities. The NASA research and development budget has increased $637 million to $5.4 billion.

The Department of Energy increased by $95 million over the 1988 total, and DOD R&D obligations have increased by about 2 percent to $38.8 billion.

Of course, Mr. Chairman, also of great concern is the nation's future science and technology talent base, and we are taking several steps, both to bring the motivation and attention to our young people and to provide the opportunities that they require for meeting the future.

That is a brief summary of my statement, Mr. Chairman. We would be glad to address your questions.

[The statements follow:]

STATEMENT OF DR. WILLIAM R. GRAHAM

Mr. Chairman, Members of the Committee:

As members of the Senate Subcommittee on HUD and Independent Agencies know, President Reagan strongly supports the key role of science and technology in the achievement of our national goals. Strong support for basic research, both federally and jointly with states, industries, and universities, has been a hallmark of his Administration. The President realizes that basic research is the passkey to the future. Many years hence, our competitiveness in global markets and the competitiveness of our national security systems will, to a great extent, be determined by the technological innovation spawned from the knowledge produced by the basic research conducted today. The FY 89 budget continues this emphasis.

Industries, universities, and government spend large sums of money on research and development--estimated to be about $132 billion in 1988. From this huge investment the American people have certain expectations. Those are:

0 Maintaining and enhancing our national security

0 Improving the competitiveness of our products in the international marketplace

0 Improving the quality of life for our citizens

0 Providing for the health and welfare of all Americans today and in the future

0 And gaining a better understanding of the world around us and beyond.

We must remember that it is not the federal government alone that shoulders the responsibility to pursue these goals. In 1988, industry, universities, and other non-federal organizations are projected to spend $67 billion on research and development. Enhancing the incentives for increasing non-federal investment in research and development is a major objective of this Administration and, in this regard, through incentives and other legislation, there has been sustained real growth in non-federal investment in R&D over the last seven years.

Another significant effort of the Administration has been to devise and adopt policies to strengthen the transfer of and expedite research and technology from universities and government laboratories to the commercial sector. Executive Order 12591, April 10, 1987, which defined and ordered the transfer of federal laboratory results to universities and industry, requires the head of each executive department and agency to assist in the transfer of technology to the U.S. marketplace. This order also directed the Secretaries of State and Commerce and the Director of NSF to develop a central mechanism for the prompt and efficient dissemination of S&T information developed abroad to users in the federal laboratories, academic institutions, and the private sector on a fee-for-service basis. Such programs enhance the competitiveness of our industries by putting to commercial use the products of federally funded research and technology development. An indicator of the success of our technology transfer is the increase in coauthorship across federal laboratories and the industrial and university sectors: 24% of industrial articles were coauthored with university members in 1984 while a decade before it was just 19%; industrial coauthored articles with government laboratories rose to almost 50% in that time.

Each sector, private and government, has a separate role in the conduct of research and development. The private sector invests in R&D when the expected returns and associated risks in relation to investments are considered by the investors to be prudent. The federal government should maximize its support and minimize its interference in our free economy.

At the same time, government has a role in funding research and development essential to programs in support of national security and other obligations unique to government. The federal government also has a responsibility to meet major national needs when there is not sufficient incentive for private industry to make the level of investment the nation requires. The funding of basic research, AIDS research, and space technology development are examples of the federal government's meeting such needs.

The FY 89 R&D budget is designed to meet these federal responsibilities. The bipartisan budget agreement reached late last year placed severe constraints on the overall FY 89 budget. Departments and agencies were hard pressed to incorporate those constraints into budgets that were initially planned at higher funding levels. However, the maintenance of sound R&D programs was given high priority by the Administration, and this is reflected in the FY 89 department and agency R&D budget requests. The result is a program of substantial growth that is tailored to meet the most critical needs of the nation.

The President's budget includes a total of $64.6 billion for research and development and facilities, an increase of $2.7 billion over FY 88, or 4 percent. Of this total, approximately $21 billion is for non-defense related R&D, an increase of 6 percent. Included in the total is $10.3 billion for basic research, which is a $600 million increase over the FY 88 estimated level of $9.7 billion. Significant increases or continuing support are also being requested for many other important programs. Those include:

0 Biomedical and AIDS-related research

0 The Superconducting Super Collider

0 Continuing research on causes and understanding of changes in the global environment

0 A joint DOD-NASA program in support of the National Aerospace Plane

0 The space station and other space science and technology programs

0 A clean coal technology demonstration program, and

0 Selected Department of Defense high-leverage strategic and tactical programs.

The increase in basic research is especially significant. The $600 million growth continues the President's commitment to enhance support for basic research across a spectrum of scientific and engineering disciplines. Since 1981, federal support to basic research has increased by 52 percent in real terms. Even in the austere fiscal environment of FY 89, this emphasis has been maintained.

About half of the $10.3 billion proposed for basic research will go to universities. These funds serve the dual purpose of developing new knowledge while also developing future generations of scientists, engineers, and university faculties. In addition, research in industrial labs is growing faster than in any other sector: in 1985, industrial labs spent $2.85 billion on basic research, an increase of 65% in constant dollars over the 1980 level.

Total FY 89 proposed federal support for research and development at universities will increase to approximately $9.2 billion, a 13 percent increase from the FY 88 figure. The industrial segment has been the fastest growing support of university research, expending $75 million in constant dollars from 1980 to 1985, but still remains small at $600 million.

The National Science Foundation budget for research is proposed to be increased to $2.05 billion in FY 89, an increase of $333 million, or about 20 percent. The increase is consistent with the Administration's plan to support basic research by doubling the NSF's budget over the next five years. Primary recipients of the increase are basic research programs across a spectrum of scientific and engineering disciplines. Included also is a one-time request of $150 million for Science and Technology Centers, which are intended to strengthen multi-disciplinary research by improving cooperative linkages between leading scientists and engineers and facilitating the all-important transfer of research results to the private sector.

Research and development activities in the Department of Health and Human Services are projected to increase approximately 10% to $7.9 billion. Of that total, an estimated $6.2 billion will be managed by the National Institutes of Health; $4.3 billion of the total will go to basic research; and $860 million to AIDS research. The federal government has clearly taken the responsibility to learn about the AIDS virus, and, through monitoring, testing, and education, to reduce its spread.

The National Aeronautics and Space Administration proposed FY 89 research and development budget has increased $637 million, or 13 percent, to $5.4 billion. The total includes obligations of $739 million for space station development and $1.4 billion for basic research in the aeronautical and space sciences. There is also $100 million specifically earmarked for technology to support future decisions on manned and unmanned exploration of the solar system. NASA's R&D budget reflects the Administration's strong commitment to the nation's space program.

The proposed FY 89 research and development obligations of the Department of Energy are proposed to be increased by $95 million from the estimated FY 88 total. The Department has restructured its programs to allow significant increases in high-energy nuclear physics and long-term energy research. The Department of Energy is also initiating a five-year, $2.5 billion, clean coal technology demonstration program, and is requesting approximately $363 million to begin construction of the Superconducting Super Collider accelerator facility. Offsetting decreases were made in other energy technology programs deemed to be more appropriate for private sector investments.

The Department of Defense estimated R&D obligations have increased about 2 percent to $38.8 billion. Funding for most programs has remained relatively constant from estimated 1988 amounts. Increases are proposed for several high-leverage advanced technology development programs. These include $4.6 billion for the Strategic Defense Initiative and an increase of $500 million in tactical programs. In addition, the budget increases support for the the joint DOD-NASA National Aerospace Plane (NASP), a transatmospheric flight research vehicle, by $96 million fro FY 88 to FY 89.

In summary, support for basic research has increased each year by approximately $600 million during the Reagan Administration. The FY 89 budget calls for $13.9 billion in budget authority for the National Science Foundation, space programs in the National Aeronautics and Space Administration, and general science programs of the Department of Energy--an increase of 29 percent over the FY 88 funding level of $10.7 billion.

Under the proposed budget, NSF would emphasize support for basic research and for science and engineering education. It would also fund 12 to 15 disciplinary Science and Technology Centers for five years, encouraging participation by industry and the states to speed transfer of knowledge from the laboratory to the marketplace.

The general science programs within the Department of Energy would be increased by 49 percent--including funding for initial construction of the Superconducting Super Collider, a critical part of the initiative to maintain and strengthen the nation's scientific and technological leadership.

Budget authority of $10.6 billion is proposed for the space-related activities of NASA, in part to allow NASA to continue buildup to safe flight of the space shuttle. NASA would also expand development activities for the manned space station (in cooperation with our friends and allies and with private sector investment and involvement), initiate a new space science project--the Advanced X-Ray Astrophysics Facility--and start a substantial effort to search for radio signals that would indicate the existence of extraterrestrial intelligence.

Of great concern is the nation's future science and technology talent base. The President has taken steps to encourage that talent, among them:

-- In June 1987 the President awarded 20 National Medals of Science and 4 National Medals of Technology, the nation's highest honor for achievement in mathematics, science, engineering, and technology. The President has proposed monetary awards to accompany these national medals.

-- In addition, the President has proposed a new Thomas A. Edison Prize that will challenge Americans from all walks of life to use innovative technology to improve our quality of life.

-- The President is encouraging federal scientists, engineers, and technicians to take a sabbatical year to teach and to encourage employment in science and engineering.

The FY 89 budget, which recognizes the critical role of science and technology to the nation's well-being, will serve America well.

I will answer your questions at this time.

STATEMENT OF JONATHAN F. THOMPSON, EXECUTIVE DIRECTOR, OFFICE OF SCIENCE AND TECHNOLOGY POLICY

Mr. Chairman and Members of the Committee:

You have before you the 1989 request from the Office of Science and Technology Policy for the amount of $1,787M, which includes a request for 15 full-time permanent employees, a reduction in travel, and a modest $6,000 increase in our SLUC.

OSTP, like the other agencies of the federal government, has been affected by the limits set forth in the Bipartisan Budget Agreement. We have endeavored to distribute the impact of our overall budget cut in a balanced fashion. The FY 89 budget reflects a reduction in employee accounts. We believe these levels will allow us to meet our goal of maintaining the maximum amount of flexibility for staffing both permanent employees and detailees for the office, while adhering to our statutory responsibility of paying 50 percent of the total compensation of detailees to the office.

I would also point out to the Committee the reduction in the travel line in this budget. In accordance with the Administration's effort to reduce travel and associated costs, we have reduced this line item to $100K from an estimated $105K in FY88.

Next, I want to address the question of equipment for the OSTP. Beginning in FY 87, we sought to fold our administrative needs, especially those of equipment, into the overall White House complex and the Office of Administration to the greatest extent possible. That effort has been successful and we have, we believe, entered into the final phase of equipment modernization for the office, and thus the reduction in the equipment line for FY 89 reflects that effort.

Overall, this budget represents what we believe to be a realistic approach for the upcoming year. However, two considerations went into planning for the next fiscal year, when a new Administration will arrive within the White House complex. First, we are sensitive to the need to ensure that the next Administration has the flexibility to bring on board personnel necessary to carry out its responsibilities. Second, we are equally sensitive to the critical requirements for continuity and institutional memory any new Administration will face during the transition phase. This budget is designed to accommodate these needs.

In short, Mr. Chairman, and members, we believe that this budget does represent a fair and equitable apportionment for FY89, and that we will be able to meet the needs and the demands in the year ahead. I would be happy to answer any questions you may have at this time.

PREPARED STATEMENT

Senator PROXMIRE. The subcommittee has received a prepared statement from Senator D'Amato which I would like to insert in the hearing record at this time.

[The statement follows:]

STATEMENT OF SENATOR D'AMATO

I welcome to this subcommittee Dr. William Graham, Director of the Office of Science and Technology Policy [OSTP]. I am pleased to be addressing the OSTP's vital role in advising the President on scientific and technological matters and providing coordination for our federal research and development programs. A sound national policy in science and technology is critical to our nation's long-term economic well-being.

In fiscal year 1989, the President has recommended spending more than $64.6 billion for federal research and development and facilities—a 4 percent increase over 1988. This funding contributes to such major national needs as basic research, AIDS research, and space technology development. As our commitment to federal research spending grows, so does the importance of the direction provided by the OSTP.

The OSTP's fiscal year 1989 budget request of $1,787,000 represents a 5.3 percent reduction from the amount appropriated for 1988. This request reflects a slight reduction in full-time permanent staff as well as lower office automation costs relative to fiscal year 1988. I understand that these changes follow an exhaustive review of OSTP's operations initiated by Dr. Graham. I look forward to hearing more from Dr. Graham about the activities he has undertaken as the result of this review to improve the OSTP's support and services to the President. I also look forward to hearing Dr Graham's views on our national priorities in scientific research and development.

NUCLEAR WINTER

Senator PROXMIRE. Thank you, Dr. Graham.

Dr. Graham, In 1985, the President signed into law a resolution calling for a joint United States-Soviet study of nuclear winter. In last year's hearings, we talked at length about this study. I asked that you provide for the record any materials indicating initiatives we have taken to elicit cooperation with the Soviet Union in this matter in accordance with the 1985 congressional resolution that was signed into law.

You responded, and I quote, "I will be pleased to do so, Mr. Chairman." However, the record material was never received. Can you tell us why it was not received, and does your failure to supply the material mean that we, in fact, have no initiative to elicit cooperation with the Soviet Union on a nuclear winter study?

Dr. GRAHAM. Mr. Chairman, we are, in fact, cooperating with the Soviet Union on the basis of our understanding of environmental change and environmental consistency. That underlies the basis for all understanding, including nuclear winter effects. If that information wasn't provided to you, it was an oversight, and we will certainly get that to you.

Senator PROXMIRE. Wait a minute. You say an environmental change. There are all kinds of environmental changes that are constantly taking place and, of course, many of them are of great importance, but this was a specific, explicit request that you would tell us what kind of compliance you had with the law that we try to negotiate a nuclear winter study with the Soviet Union.

Obviously that would be the result, the next result, at least, of a nuclear war.

Dr. GRAHAM. Perhaps one of my colleagues has some further specifics on that, Mr. Chairman. The point I was making was that before one can understand these potentially changing, large changing effects or whatever the change is, one must have a reasonable understanding of the environment, of the Earth, and the climate as it is, and that is where we started.

We started with the basic understanding of the phenomena. I know we have discussed that with the Soviets at a number of meetings since that time, and I am sure we will continue in that direction.

Senator PROXMIRE. Dr. Graham, I have great admiration for you. You are a splendid scientist. I am not. But I am appalled to hear you say that you can begin to comply with this by saying we have to study the environment and the changes in the environment but not an explicit study of the effect of nuclear war possibly causing a nuclear winter: nuclear war explicitly, not just the changes in the environment.

It seems to me that is a huge difference. Let me go on.

Dr. GRAHAM. I would hope you wouldn't be appalled, because that is all based on our understanding of the environment, Mr. Chairman, and that seems to me to be the overriding need at this point in time.

If any of my colleagues have comments to add, by all means.

U.S.-U.S.S.R. SCIENTIFIC UNDERTAKINGS

Senator PROXMIRE. Let me ask you this. You have already indicated one. Can you indicate any other initiatives your office has taken to develop and pursue joint scientific undertakings with the Soviet Union?

Dr. GRAHAM. Yes, Mr. Chairman. In particular, Mr. Marks has been addressing the issue of potential cooperation with the Soviet Union in basic science for more than the past year, and we will be discussing that issue with the Soviet representatives in the very near future here in Washington.

SUPER COLLIDER BUDGET

Senator PROXMIRE. In last year's hearings, we discuss the super collider budget. I asked you, Dr. Graham, whether you had any commitments from other nations to help build that facility. You responded that the Office was beginning the process of formal discussions and that you had several statements of strong interest in participating in the construction and operation of the facility. Where do those discussions stand today?

Dr. GRAHAM. I would defer to the Department of Energy for the details of that, Mr. Chairman, but I believe there has been substantial further exploration with countries; again, additional statements of interest, but I also believe that other countries are waiting until they have a commitment to construct from the United States before they make explicit commitments of their own.

Senator PROXMIRE. Will you get what you can and supply it for the record on any indications of interest in the super collider? Obviously, I wouldn't expect you to have people signed on the dotted line, but I think that it would be helpful to know whether there was any substantial significant indication of interest on their part of encouragement.

Dr. GRAHAM. I would be pleased to do that. In my own informal discussions with representatives of other countries, I have seen a strong indication of interest.

Senator PROXMIRE. Can you tell us what countries had indicated an interest?

Dr. GRAHAM. Certainly. Canada is interested in it. Japan is interested in it, and by country, what I mean is scientific and governmental members of these countries. I am not trying to state a national position for each one of these countries, but I have found strong interest in these communities in Canada, in Japan, in Italy, as three examples. I am sure there are several others that I haven't addressed.

[The information follows:]

INTEREST IN THE SSC

Informal interest in the SSC has been expressed by the Germans, French, British, Canadian, and Japanese. Italy recently signed a joint communique with DOE on energy and energy R&D matters.

The joint communique, dated March 31, 1988, was signed by DOE Secretary Herrington and Italian Deputy Minister of Industry, Commerce and Handicrafts Gianni Ravaglia. It affirms the need to explore ways of achieving "joint undertakings in support of the design construction and manufacturing of the SSC and its component subsystems." Follow-up meetings with the Italians are scheduled for mid-to-late June.

Senator Proxmire. I think this is of the greatest importance, because, of course, these programs, as you know far better than I, are likely to be very, very expensive, and the benefits would be international. It certainly wouldn't be confined to our country.

Dr. GRAHAM. Very much so.

NATIONAL AERONAUTICAL R&D GOALS

Senator PROXMIRE. Particularly our friends and allies. I am delighted to hear you say that Japan, for example, and Canada are interested. Have you had any other indication of interest or support, particularly if there is any indication that they might be interested in discussing financial support would be very, very helpful.

All of us are enthusiastic about devoting our resources to scientific inquiry and scientific advance, but as you know, we have a terrific spending and budget problem. Any assistance we can get from other countries would be of the greatest importance.

On page 18 of your justification, Dr. Graham, a report entitled "National Aeronautical R&D Goals, Agenda for Achievement" is mentioned. The justifications indicate your Office has been reviewing the recommendations contained in the report with the intention of developing specific implementation plans. What is your time table for issuing these implementation plans?

Dr. GRAHAM. Let me check your reference, if I might, Mr. Chairman.

Mr. Thompson. Page 18?

Senator PROXMIRE. Page 18 of your justification.

Dr. GRAHAM. I am sorry, Mr. Chairman. Your specific question was?

Senator PROXMIRE. At the top of the page, I will read the part that relates to this:

> Since aeronautics provides the largest positive contribution to the U.S. balance of trade, OSTP has been reviewing the Committee's recommendations in light of the President's competitiveness initiative and is working closely with government agencies, the academic research communities and the industrial sector to develop specific implementation plans to respond to the report's recommendation

My question is: What is your timetable for issuing these plans that you refer to here?

Mr. Graham. We have been addressing these issues on a continuous basis, Mr. Chairman, and for example, the aeronautical research in the 1989 budget is characteristic of that support of the aeronautical program that we think appropriate.

In the areas more related to trade, the President has recommended recently that we not have an antitrust constraint so configured that it keeps U.S. companies from joining together to meet vigorous foreign competition; that applies in the aeronautical areas as well as others.

Those are two examples of the areas where we have pursued this, Mr. Chairman, and, of course, the National Aerospace Plane Program is a third, where we are trying to move our aeronautical technology ahead very forcefully. Those are part of the specific implementation plans that are responding to the report's recommendations. We didn't envision one document which published that entire implementation plan, however.

Senator PROXMIRE. Thank you, sir. Well, I appreciate your testimony.

SUBMITTED QUESTIONS

[The following questions were not asked at the hearing but were submitted for response for the record.]

QUESTIONS SUBMITTED BY SENATOR PROXMIRE

EXECUTIVE LEVEL III SLOT

Question: Dr. Graham, in 1987 your office was able to get along with one Executive Level II position and no Executive Level III slots. According to page 10 of your justifications, you added an Executive Level III position in 1988. What is the salary level for Executive Level III?

Answer: The salary level for an Executive Level III is $82,500 per annum.

Question: Why did you find it necessary to add the position to your staff?

Answer: I assumed my present position in October 1986. Even though I anticipated appointment of an individual to serve as my Deputy Director and made my selection soon after taking office, the process took longer than anticipated. The nomination of my candidate for this position was announced in June 1987; however, due to scheduling conflicts by the appropriate Congressional Committee the hearing and subsequent approval was not completed until November 1987, at the beginning of FY 1988.

PERSONNEL BENEFITS

Question: In note on page 11 of your justifications that you are requesting $80,000 for personnel benefits, a 23 percent increase over the current budget. Given the fact that you are not planning to increase your staff, what accounts for this substantial increase in personnel benefits?

Answer: The 23-percent increase above that currently appropriated for FY 88 is reflective of two critical elements which will impact on the Office: (1) the anticipation of filling all of the permanent OSTP positions prior to the beginning of FY 89 and (2) costs associated for agency contributions under the Federal Employee Retirement system (FERS) due to changes in actuarial, switch rate, and thrift plan assumptions.

Question: Last year, in response to a question submitted for the hearing record, you indicated that you were reimbursing each detailee's parent agency 50 percent of the total costs of each detailee. Is that still the case?

Answer: The Office has made and will continue to make arrangements with detailing agencies for the reimbursement of not less than 50-percent of the total personnel compensation costs of individuals assigned to OSTP.

Question: How many detailees were working at OSTP in fiscal 1987 and how many are you budgeting for in fiscal 1988 and 1989? We'd like you to provide a detailed list for the record.

Answer: During FY 1987, 31 different individuals were assigned to the Office. It is anticipated that during FY 1988 and FY 1989, with the appointment of permanent staff members, a reliance on detailees will diminish and hence a reduction in funding for this purpose. We currently have individuals assigned from the following agencies/departments:

ACTION
Agency for International Development
Central Intelligence Agency
Department of Energy
Department of State
Department of the Air Force
National Aeronautics and Space Administration
National Science Foundation
Office of Management and Budget
U.S. Marine Corps

Upon appointment of new staff members a review of our detailee requirements will be made and appropriate changes implemented at that time.

REPRESENTATION EXPENSES

Question: Dr. Graham, last year you received $1,500 for official reception and representation expenses, a pretty large amount considering the size of your agency. The head of the National Science Foundation with a $1.5 billion budget received only $2,500 for such expenses.

Can you tell us whether you plan to spend your full allowance in fiscal 1988 and how you have spent the funds thus far, providing a detailed breakdown for the hearing record?

Answer: It is anticipated that the full amount for FY 1988 will be expended. As you are aware, the representation fund is not only for reciprocal dinners and luncheons for foreign dignitaries but also for the purpose of the exchange of official gifts during visits and meetings. I have met with a number of groups from Thailand, Japan, China, and Brazil in the past 6 months and am scheduled to travel this summer to finalize several science and technology agreements with Japan and India.

Question: Back in 1980 when your office had a budget of $2.6 million -- about $800,000 more than you are requesting today--your representation allowance was only $1,000. Don't you think this amount would allow you to fulfill your ceremonial functions?

Answer: Although an additional $500 does not seem like a large amount of money, the costs of and the number of receptions and gift exchanges have increased and this small allowance for these types of expenses is reasonable and appropriate.

QUESTIONS SUBMITTED BY SENATOR D'AMATO

QUESTION: Dr. Graham, on page 2 of your testimony you describe the Administration's efforts to encourage the transfer of technology from Universities and Government Laboratories to the commercial sector. To illustrate the success of these technology transfer efforts, you point to the recent increase in the number of articles coauthored by members of the industrial and university communities. What other evidence can you cite to show that these efforts are succeeding?

What obstacles do you see to our future efforts to encourage better teamwork between research and industry?

ANSWER: We are forwarding a copy of a June 1988 transmittal to the President, titled "Progress in Facilitating Access to Science and Technology, Highlighting Superconductivity". As detailed in the document, progress on technology transfer is occurring on many fronts. For example, many agencies have formed laboratory-industry or laboratory-university-industry consortia of several types and structures. As another example, scientist-to-scientist communication between laboratory and industry personnel is increasing, with thousands of industry people spending significant time at federal laboratories.

The most significant obstacle is perhaps cultural. A central mission of the federal laboratories has been, and continues to be, R&D in support of the broader mission of the host agency. Industry, on the other hand is directed towards the nearer term goal of producing and selling specific products. The task of fostering an interface is proceeding very well, but requires sustained efforts over a period of time to achieve concrete results in the marketplace.

QUESTION: Citing the importance of science and technology policy to our national security and economic competitiveness, there are some, including former OSTP Director George Keyworth, who suggest the establishment of a separate Department of Science and Technology. What is your reaction to this suggestion?

ANSWER: I do not favor such a move. I believe it would be counter-productive, working against the best interests of the R&D enterprise, and working against the effectiveness of R&D in addressing critical national needs. Federally supported R&D is not a homogeneous product occurring in isolation, similar from one agency to the next. Rather, R&D supports the broad missions and goals of the host agency. Without the host agency, much of the rationale and context for the R&D would diminish, to the great detriment of science. For example, it would be difficult to imagine space R&D apart from the infrastructure of NASA, energy R&D apart from the realities of energy policy, or Defense R&D separated from Defense procurement.

SUBCOMMITTEE RECESS

Senator PROXMIRE. The subcommittee will stand in recess until tomorrow at 10, when we will hear from the Federal Emergency Management Agency. The hearing will take place in room S-126 of the Capitol. Thank you, sir.

Dr. GRAHAM. Thank you, Mr. Chairman.

[Whereupon, at 12:38 p.m. Monday, April 25, the subcommittee was recessed to reconvene at 10 a.m. Tuesday, April 26.]

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